

**For discussion
on 7 April 2025**

Legislative Council Panel on Financial Affairs

Consolidation of Financial Arrangement of Six Seed Capital Funds

PURPOSE

The 2025-26 Budget proposes bringing back six seed capital funds with a relatively large unspent balance, totalling about \$62 billion, to the Government's accounts. This paper reports on the follow-up work on the initiative, and seeks Members' views on the revised financial arrangements of the six seed capital funds.

BACKGROUND

2. The Financial Secretary proposed in the 2025-26 Budget that the fiscal consolidation programme be reinforced to address the challenges brought by the fiscal deficit, with controlling expenditure, optimising the use of Government financial resources, and increasing revenue as major strategies.

3. In the past, bureaux and departments established funds outside the Government's accounts for specific purposes in the light of their policy needs. Currently, there are a total of 42 such funds with an aggregate balance of about \$178 billion as at the end of 2023-24, of which 23 operate in the form of a seed capital fund and only use investment returns to meet their expenditure (see **Annex I**).

4. Generally speaking, the above funds are established either by legislation, in the form of a trust, or with the approval of the Finance Committee (FC) of the Legislative Council (LegCo). Controlling Officers of the bureaux or departments concerned must ensure the fund's operation complies with the relevant requirements of the legislation or

provisions in the trust deed, and put in place an appropriate monitoring mechanism to ensure effective use of public financial resources. Controlling Officers will formulate and update strategies and work plans for achieving the purposes of the funds and develop appropriate performance measures for the funds under their purview. Controlling Officers will also conduct reviews from time to time on the use and effectiveness of the funds, and contemplate appropriate financial arrangements having regard to the policy objectives, financial position of the funds, views of stakeholders, etc., with a view to ensuring effective and flexible use of public financial resources.

Revised Financial Arrangements for Six Seed Capital Funds

5. Seed capital funds mainly use investment returns to meet their expenditure and, in general, may only use a small part of their principal to finance the relevant policy initiatives under exceptional circumstances (e.g. at times of market volatilities) to ensure their financial sustainability. To enable individual seed capital funds to generate larger investment returns to cope with the additional expenditure involved in implementing new initiatives, the Government has made further injections to relevant seed capital funds when the funds still have an adequate balance. This mode of operation of seed capital funds has resulted in the locking up of an enormous amount of public financial resources, thereby limiting the Government's flexibility in allocating resources to different policy areas according to the prevailing priority.

6. To enable the Government to make more flexible and effective use of public financial resources, we have reviewed the financial arrangements of these funds. To provide a more comprehensive picture of the Government's fiscal position and enable better use of its financial resources, we will first bring back the following six seed capital funds with a relatively large unspent balance to the Government's accounts after setting aside resources to meet the necessary expenditure of relevant funds for the next five years so that their sustainable operation will not be affected:

- (a) Hospital Authority (HA) Public-Private Partnership Fund;
- (b) Research Endowment Fund;
- (c) Language Fund;
- (d) Student Activities Support Fund;
- (e) Qualifications Framework Fund; and
- (f) Gifted Education Fund.

In selecting these six seed capital funds, we have primarily taken into account the fact that they were not established by legislation, and that their principal consists of only government injections with no donations involved. Therefore, the revisions required to be made to the financial arrangements and the fund balance transfer procedures are relatively simple. The principals of these six seed capital funds are currently placed with the Exchange Fund for investment to generate income for meeting the expenses.

7. These six seed capital funds were set up with injections approved by the FC in the early days, and approval was given by the FC to use the investment returns generated from government injections to support their specific policy objectives. To ensure sustainable operation of the funds after the transfers of their balance, we propose revising the financial arrangements of these funds to allow the direct use of the principals for meeting their cash flow requirements. As mentioned above, the Government has, with reference to their past expenditure and future work plan, set aside resources for these six seed capital funds to meet their necessary expenditure in the next five years. The policy objective, mode of operation, as well as management and control of the six seed capital funds (see **Annex II**) will remain unchanged after the transfers.

8. The Government will review the financial arrangements of the six seed capital funds in 2028, and determine the financial arrangements beyond the five-year period with due regard to the latest developments and the Government's financial position at the time, with a view to taking forward the relevant policy work on an on-going basis.

FINANCIAL IMPLICATIONS

9. In consultation with the Education Bureau (EDB) and the Health Bureau (HHB), we have reviewed the latest financial status of the six seed capital funds. Having regard to the past expenditure and scheduled projects of the funds concerned, it is projected that the total cash flow requirements for the next five years¹ will be about \$14.9 billion. We expect that the unspent balance of the six funds, totalling about \$61.5 billion, will be brought back to the Government's accounts in the middle of this year.

Seed Capital Fund	Balance to be Retained (\$ million)	Balance to be Brought Back (\$ million)
Research Endowment Fund	10,981	40,297
HA Public-Private Partnership Fund	1,800	8,698
Language Fund	895	6,226
Student Activities Support Fund	323	2,459
Qualifications Framework Fund	428	2,006
Gifted Education Fund	461	1,814
Total	14,888	61,500

¹ For Research Endowment Fund, Language Fund, Student Activities Support Fund, Qualifications Framework Fund and Gifted Education Fund, the next five years refers to the 2025/26 to 2029/30 school years.

PUBLIC CONSULTATION

10. The EDB and the HHB have consulted the relevant governance bodies of the six seed capital funds in respect of the revised financial arrangements of the funds.

FOLLOW-UP WORK

11. Subject to Members' support, we will seek the approval of the FC to revise the financial arrangements of the six seed capital funds to allow the direct use of the principals to support their work in the next five years.

12. We have requested all relevant bureaux to review the financial arrangements of the other 36 funds. Individual bureaux will review the policy objective, financial arrangements, cash flow requirements for the next few years, etc. of each of the funds under their purview. When considering whether to bring back any funds, the Government will take into account the actual circumstances of the funds, including whether the financial arrangements are restricted by the legislation and whether the principals of the funds involves funding from sources other than government injection. We plan to complete the relevant review in the first quarter of 2026.

13. As announced in the Chief Executive's 2024 Policy Address, the Government will allocate \$2 billion to set up the Teacher Professional Development Fund to support the long-term development of the teaching profession and enhance training and exchange programmes for teachers. The EDB proposed setting up a seed capital fund for this purpose, and consulted the LegCo Panel on Education on the proposal in November 2024. Given that the overall financial arrangements of seed capital funds are pending review, and that relevant measures for teachers' professional development will continue to be supported by the EDB's existing resources until 2027/28, we will further review the financial arrangements of the Teacher Professional Development Fund in conjunction with the EDB and consult the LegCo on the funding proposal in due course.

ADVICE SOUGHT

14. Members are invited to advise on the above proposal.

Financial Services and the Treasury Bureau

Education Bureau

Health Bureau

March 2025

Annex I

**42 Funds Established outside the Government's Accounts
for specific purposes
(in descending order of balance)**

Name of Funds		2023-24 year-end balance (Note 1) (\$million)
Seed Capital Fund		
1	Research Endowment Fund	52,478
2	Community Care Fund	11,147
3	Hospital Authority Public-Private Partnership Fund	10,831
4	Elite Athletes Development Fund	10,197
5	Quality Education Fund	9,082
6	Language Fund	7,521
7	Environment and Conservation Fund	6,141
8	HKSAR Government Scholarship Fund	4,461
9	Self-financing Post-secondary Education Fund	4,341
10	Sir David Trench Fund for Recreation - Arts And Sport Development Fund	4,116
11	Beat Drugs Fund	3,944

Name of Funds		2023-24 year-end balance (Note 1) (\$million)
12	Student Activities Support Fund	2,869
13	Qualifications Framework Fund	2,522
14	Gifted Education Fund	2,273
15	Hong Kong Paralympians Fund	263
16	Arts Development Fund for Persons with Disabilities	261
17	Sir David Trench Fund for Recreation - Hong Kong Athletes Fund	244
18	Supplementary Legal Aid Fund (Note 2)	216
19	Queen Elizabeth Foundation for the Mentally Handicapped	213
20	Sir David Trench Fund for Recreation - Main Fund	105
21	Sir David Trench Fund for Recreation - Sports Aid Foundation Fund	58
22	Social Work Training Fund	20
23	Sir David Trench Fund for Recreation - Sports Aid For The Disabled Fund	11
<i>Balance of Seed Capital Fund :</i>		<i>133,314</i>
Non-Seed Capital Fund		
24	Anti-epidemic Fund	18,321

Name of Funds		2023-24 year-end balance (Note 1) (\$million)
25	Employees Retraining Fund	13,498
26	Samaritan Fund	8,640
27	Construction Innovation and Technology Fund	1,698
28	Traffic Accident Victims Assistance Fund	1,454
29	Occupational Deafness Compensation Fund	637
30	Social Innovation and Entrepreneurship Development Fund	368
31	Cantonese Opera Development Fund	129
32	Emergency Relief Fund	120
33	Trust Fund in Support of Reconstruction in the Sichuan Earthquake Stricken Areas	72
34	AIDS Trust Fund	32
35	J.E. Joseph Trust Fund	22
36	Pneumoconiosis Ex Gratia Fund	21
37	Kadoorie Agricultural Aid Loan Fund	16
38	Elder Academy Development Foundation	16
39	Trust Fund for Severe Acute Respiratory Syndrome	13

Name of Funds		2023-24 year-end balance (Note 1) (\$million)
40	Consumer Legal Action Fund	10
41	Hong Kong Arts Development Council Fund	2
42	Sir David Trench Fund for Recreation - Arts Development Fund	0.3
<i>Balance of Non-Seed Capital Fund :</i>		45,069.3
Total:		178,383.3

Note 1: The audited accounts of certain funds are not closed by financial year and the year-end balances shown are the balances in the audited statement of accounts for each fund in 2023-24.

Note 2: The 2023-24 financial statement of the fund has yet to be audited, therefore the year-end balance in 2022- 23 is provided.

Policy Objective, Mode of Operation and Management and Control of the Six Seed Capital Funds

Fund	Year of Establishment	Relevant Finance Committee Paper	Policy Objective	Mode of Operation	Management and Control
Research Endowment Fund	January 2009	FCR(2008-09)55	To provide recurrent research funding to University Grants Committee (UGC)-funded institutions, and to finance appropriate research projects on specific themes.	The fund operates in a seed fund model, with the principal placed with the Exchange Fund (EF). The primary income sources are government injections and investment returns.	The fund has been set up as a charitable trust and the Permanent Secretary for Education Incorporated (PSEdI) acts as the trustee of the fund. The UGC is responsible for managing the investment and accounting matters of the

Fund	Year of Establishment	Relevant Finance Committee Paper	Policy Objective	Mode of Operation	Management and Control
					fund. The Education Bureau (EDB) submits the fund's financial statements to the Director of Audit and the Legislative Council (LegCo) annually.
Hospital Authority Public Private Partnership Fund	March 2016	FCR(2015-16)39	The Hospital Authority (HA) aims to utilise investment returns of the fund for regularising and enhancing clinical	The fund is placed with the Exchange Fund for investment to support the PPP programmes with the investment returns	The HA PPP Fund is managed by HA and an HA PPP Fund Management Committee co-

Fund	Year of Establishment	Relevant Finance Committee Paper	Policy Objective	Mode of Operation	Management and Control
			Public-Private Partnership (PPP) programmes being undertaken on a pilot basis, as well as developing new clinical PPP initiatives in future so as to alleviate pressure on the public healthcare system.	generated by the PPP Fund.	chaired by the Chief Executive/HA and the Health Bureau (HHB) has set up to oversee the use of investment returns. HA will provide regular reports on the use of the PPP Fund and outcome of the PPP initiatives for monitoring by HHB. Besides, annual financial statements will

Fund	Year of Establishment	Relevant Finance Committee Paper	Policy Objective	Mode of Operation	Management and Control
					be tabled to the LegCo annually.
Language Fund	February 1994	FCR(1993-94)141	To improve Hong Kong people's proficiency in Chinese (including Putonghua) and English through funding a wide range of initiatives.	The fund operates in a seed fund model, with the principal placed with the EF. The primary income sources are government injections and investment returns.	The fund is managed by the EDB, with its trustee being the PSEdI. The EDB established the Standing Committee on Language Education and Research to provide advice to the trustee of the fund on the policies and

Fund	Year of Establishment	Relevant Finance Committee Paper	Policy Objective	Mode of Operation	Management and Control
					procedures governing the operation of the fund. The EDB submits the fund's financial statements to the Director of Audit and the LegCo annually.
Students Activities Support Fund	October 2019	FCR(2018-19)58	To support primary and secondary school students with financial needs to participate in life-wide learning activities organised	The fund operates in a seed fund model, with the principal placed with the EF. The primary income sources are government	The fund is managed by the EDB, with its trustee being the PSEdI. The Permanent Secretary for

Fund	Year of Establishment	Relevant Finance Committee Paper	Policy Objective	Mode of Operation	Management and Control
			or recognised by schools.	injections and investment returns.	Education, as the controlling officer, is responsible for ensuring the prudent management of resources under the fund. The EDB submits the fund's financial statements to the Director of Audit and the LegCo annually.

Fund	Year of Establishment	Relevant Finance Committee Paper	Policy Objective	Mode of Operation	Management and Control
Qualifications Framework Fund	September 2014	FCR(2014-15)3	To support the sustainable development and implementation of Qualifications Framework.	The fund operates in a seed fund model, with the principal placed with the EF. The primary income sources are government injections and investment returns.	The fund is managed by the EDB, with its trustee being the PSEdI. The EDB established the Steering Committee on Promotion of Vocational and Professional Education and Training and Qualifications Framework to advise the Secretary for Education (SED) on the policy, strategy

Fund	Year of Establishment	Relevant Finance Committee Paper	Policy Objective	Mode of Operation	Management and Control
					and administration of the fund. The EDB submits the fund's financial statements to the Director of Audit and the LegCo annually.
Gifted Education Fund	June 2016	FCR(2016-17)48	To support the operation of the Hong Kong Academy for Gifted Education and other worthwhile initiatives and programmes that	The fund operates in a seed fund model, with the principal placed with the EF. The primary income sources are government	The fund is managed by the EDB, with its trustee being the PSEdI. The EDB established the Advisory

Fund	Year of Establishment	Relevant Finance Committee Paper	Policy Objective	Mode of Operation	Management and Control
			aim to enhance the quality of gifted education in Hong Kong.	injections and investment returns.	Committee on Gifted Education to advise the SED on the use and management of the fund. The EDB submits the fund's financial statements to the Director of Audit and the LegCo annually.