HEA

Higher Education Authority
An tÚdarás um Ard-Oideachas

Supporting Investment in Higher Education

Report of
The Working Group

06

INDEX

EXECUTIVE SUMMARY AND RECOMMENDATIONS

	FOREWORD	3
	EXECUTIVE SUMMARY AND TERMS OF REFERENCE	5
SECTION 1	INTRODUCTION AND TERMS OF REFERENCE	9
SECTION 2	GENERAL FINANCIAL & POLICY BACKGROUND	10
SECTION 3	THE STATUS OF PHILANTHROPY IN THE THIRD LEVEL SECTOR	14
SECTION 4	TAX RELIEF FOR PHILANTHROPIC DONATIONS	17
SECTION 5	PLANNED GIVING - CHARITABLE REMAINDER TRUSTS	21
SECTION 6	EXISTING PROJECT AND INSTITUTION BASED INVESTMENT SCHEMES	24
SECTION 7	BROADER INCENTIVES FOR ON-CAMPUS DEVELOPMENT	28
SECTION 8	MATCHING FUNDING SCHEMES	32
SECTION 9	TAX EXEMPT BONDS	34
SECTION 10	VALUE ADDED TAX	37
APPENDICES		39

FOREWORD

The third level sector is facing well documented and large scale demands for funding over the years ahead if it is to play the part earmarked for it in meeting the strategic, economic and social objectives set for it by the Government. The provision of funds to the third level institutions involves a heavy commitment for the Exchequer.

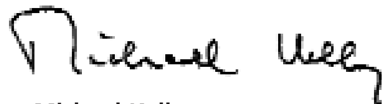
In August 2005, the HEA moved to establish a small Working Group to undertake an initial examination of the extent to which scope exists to generate more funding from private sources to assist the Government in the financing of the sector in the years ahead. We asked the Group to consider generally, and under specific headings, how the taxation and financial systems might be employed for this purpose. The specific areas included the promotion of philanthropic giving which has been a significant source of funding in other countries, notably the United States.

The initial phase of the work of the Group coincided with the conclusion of the Government's review of the use of various property-based and other tax incentives and the putting in place of arrangements to ensure that wealthy individuals pay a fair share of tax. Based on the work of the Group, the HEA was able to convey its views to the Minister for Education and Science on aspects of relevance to the third level sector in the run-up to Budget 2006.

The HEA welcomes the change announced by the Minister for Finance in Budget 2006 to allow tax relief on donations of publicly quoted securities as well as income to approved bodies including third level institutions. This was one of the areas examined by the Working Group and the change will assist in the efforts to promote philanthropic giving in this country. The Budget also announced major expenditure programmes for higher eduction over the period 2006 to 2010.

The report of the Working Group was completed following the 2006 Budget and Finance Act. It was considered and welcomed by the Authority at its meeting in September 2006. The report contains a number of specific proposals and more general suggestions and will help in the considerations of further funding possibilities for third level institutions.

On behalf of the Authority I want to express our appreciation to the members of the Working Group for the thoroughness of the work undertaken in preparing the report.



Michael Kelly
Chairman
October 2006

EXECUTIVE SUMMARY AND RECOMMENDATIONS

Summary

The initial phase of the deliberations of the Working Group coincided with the coming towards completion of the Government's review of various tax incentive schemes, including the scheme of tax reliefs for donations and the property-based schemes that have been availed of by third level institutions. On the advice of the Working Group the HEA made submissions to the Minister for Education and Science, drawn up by the Working Group, in the context of this review so as to meet the timetable for the 2006 Budget and Finance Bill.

The third level sector is facing well documented ongoing and heavy demands for funding if it is to play the part earmarked for it in meeting the strategic economic and social objectives set by the Government. The Government itself has recently taken a number of ground breaking initiatives to provide major multi-annual funding to the sector.

Given the scale of the overall financial resources needed it is important that every effort be made to mobilise maximum philanthropic funding so that the full burden does not fall on the Exchequer. Philanthropic donations are already playing a useful part but are not commensurate with the new order of wealth now existing here. Increasing the role of philanthropy generally has been set as an objective in the draft new national partnership agreement, "Towards 2016".

Looking at the experience of other countries, especially the USA, it is clear that successful exploitation of philanthropy for third level institutions requires its active promotion through a range of policies and incentives. These need to focus both on regular donations from income and donations of accumulated wealth. There is no magic wand that will enable large additional sums to be raised immediately. Rather, what is required is active promotion of a culture of giving by the HEA and individual institutions, at least some of whom will need help in building up the necessary infrastructure to support fund-raising.

In terms of incentives an important part of the infrastructure is already in place as a result of the initiatives taken by the Government. Taking account of what other countries have done, the tax incentives for donations should be extended further and broadened to encourage donations of accumulated wealth in various forms. No cap should apply to the amount that can be donated under the incentives.

Within the new framework for use of certain incentives which has been put in place by the Government, with a view to ensuring that everybody pays their fair share of tax, there is merit in maintaining some capacity for the third level institutions to use property based tax incentives so as to secure private sector support in the provision of facilities required.

There is also merit in considering the role of borrowing and other financing arrangements.

It is very difficult at this stage to give hard figures as to the likely cost to the Exchequer of improvements in the donations incentives as proposed. As regards the

incentives aimed at improving philanthropic donations this will depend on the success of the efforts to promote increased philanthropic giving here. The other financial incentives recommended require further elaboration if the policy proposals are accepted.

Recommendations

The Working Group recommends that as initial steps

1. The HEA should more actively promote and encourage philanthropic fund-raising by third level institutions.
2. Both the HEA and the HEIs should take steps to publicise more widely the tax incentives available.
3. While having regard to the sensitivities involved the HEA should consider undertaking an annual survey to obtain information more systematically on philanthropic fund-raising and its breakdown.
4. The HEA should seek-
   - that land and buildings be included in the scope of the donations income tax relief scheme,
   - that, notwithstanding a claim for income tax relief, a donor should not be subject to Capital Gains Tax (CGT) on assets donated under the scheme that have appreciated in value, and
   - that the donations scheme be removed from the list of tax incentives specified for the new annual cap on the use of tax reliefs. This is the most urgent issue arising at this stage.
5. The HEA should propose that
   - to help promote philanthropic giving of accumulated wealth for third level funding, provisions should be included in tax law to facilitate the use of Charitable Remainder Trusts (CRTs),
   - any such provisions should contain appropriate measures to guard against possible abuse, and
   - further more detailed work should be undertaken in due course to examine whether there are other trust arrangements in the USA that might be suitable for adoption here without facilitating abuse.
6. The HEA should renew its request that the tax incentive scheme for the provision of new student accommodation should be retained, albeit with restrictions. These would include limiting the allowance to third level on-campus developments only, extending the qualifying period to twenty years and any further measures considered necessary to curb abuses.
7. The HEA should propose that a tax allowance on construction cost be introduced, similar to that being retained for private hospitals and nursing homes, to encourage commercial operators to finance and operate commercial or service facilities on third level campuses on terms favourable to the State.
8. The HEA and the Department of Education and Science should adopt a pilot scheme of grants in order to promote a capacity for fundraising in all the third level institutions.

9 The authorities should consider introducing arrangements to provide expenditure-based matching funding in respect of private donations to third level institutions for specific projects.

10 Consideration should be given to allowing third level institutions to issue tax-exempt bonds on a pilot basis, and within an overall ceiling, as part of the development of their borrowing capacity.

11 In the case of highly desirable projects a sum equivalent to the VAT effectively paid by the donor should be refunded by the Government.

SECTION 1

INTRODUCTION AND TERMS OF REFERENCE

1.1 The Higher Education Authority (HEA) decided in October 2005 to set up a small Working Group to review the use of tax based and other financial incentives for funding of Higher Education Institutions (HEI's). The composition of the Working Group was:

Chairman - Dermot Quigley, former Chairman of the Revenue Commissioners
Member - Eamonn Ceannt, Bursar, University College Dublin
Member - Nick Sparrow, Director, Trinity Foundation
Member - T.Stewart Roche, Management Accountant, Higher Education Authority.

1.2 The terms of reference set for the Working Group were as follows:

"The higher education system in Ireland has been expanding rapidly in line with Government policy, particularly over the last 10 years. A similar scale of expansion in volume, scope and quality terms must be anticipated for the future if policy goals in relation to innovation and the knowledge society are to be achieved. HEI's generate income from a number of sources in addition to the grants made available from public funds. The objective of this exercise is to establish to what extent additional scope exists to generate more funding from private sources.

In particular the Group is asked to examine the extent to which the taxation and financial system can be used to provide additional funding

- through stronger incentives for philanthropic donation;
- through stronger incentives for private funding for 'project or institution based' investment;
- through more general public offerings, e.g. on a SSIA type model; or
- through other means; and
- to make recommendations on the actions that could be taken by Government, the HEA, the HEI's or other parties to bring about the necessary changes.

In carrying out its task, the Group will have regard to current practices in the education and other relevant sectors in Ireland as well as the most effective practices in other comparable systems. The Group should give priority to changes which could be effected via the Finance Bill 2006 and any changes being proposed in this regard should be made known by 31 December 2005. Ideally, the Group would submit a final report by 31 March 2006."

1.3 Because of the Government review of tax incentives being completed at that time for the 2006 Budget and Finance Bill, the Group concentrated as a priority on the input that might by made by the HEA to that review. In that context the Working Group prepared a series of draft letters that it recommended should be sent by the Chairman of the HEA to the Minister for Education and Science and the Secretary General of the Department. Copies of the letters as issued by the Chairman of the HEA on the advice of the Working Group are at Appendix 1.

1.4 The priority given to this work resulted in the deadline for the final report being pushed back beyond 31 March 2006.

1.5 Over the period October 2005 to July 2006 the Working Group held 13 meetings with research and drafting being done by members between meetings.

1.6 In the course of the work members of the Working Group had discussions with relevant parties on brief visits to the USA and UK. The programme of meetings in these countries is set out in Appendix 2. Extensive research work was undertaken on the Internet on philanthropic giving and tax-based schemes in Australia, Canada and Hong Kong. Finally, some members of the Group had a meeting in Dublin with Sheila Nordon, Executive Director of Irish Charities Tax Research Ltd. to discuss their work in this area.

1.7 The Working Group wishes to acknowledge with thanks all the assistance received.

SECTION 2

GENERAL FINANCIAL AND POLICY BACKGROUND

The Expansion of Higher Education since 1990

2.1 To understand the background to the current situation in our Universities and Institutes of Technology, it is necessary to consider the rapid growth in the student population. In the fourteen-year period since 1990, student numbers in these institutions doubled from 62,775 in 1989/90 to 125,230 in 2003/04 and are expected to increase further to 179,022 by 2015/16. Detailed figures are provided in Appendix 3.

2.2 The reason why 1990 has been chosen as the base year is that during the ensuing decade, right though the 1990's, the level of investment in undergraduate, postgraduate, research and general infrastructure within the third level sectors was modest. Taking the University sector, for example, the amount allocated for capital developments by the State over that ten-year period was €312 million approx. At the same time the veritable explosion in student numbers placed enormous strains on the Universities' existing infrastructures.

2.3 A report by the CIRCA group (HEA 1995) highlighted the significant under-investment in research in the higher education sector. In the latter part of the 1990's the Government recognised the need to ratchet up the spending on research. The Expert Group on Future Skills Needs also identified national skills gaps and needs in the area of research and researchers in its report. These reports were the catalyst for a series of far-sighted programmes and investments within the economy aimed at stimulating Ireland's transformation into a knowledge economy.

2.4 The investments impacting on the third level sector initially took form within the Programme for Research in Third Level Institutions (PRTLI) and the activities of Science Foundation Ireland (SFI).

Programme for Research in Third Level Institutions

2.5 The Programme for Research in Third-Level Institutions was launched in 1998 following the success of a pilot programme in science and technology. The programme provides integrated financial support for institutional strategies, programmes and infrastructure and ensures that institutions have the capacity and incentives to formulate and implement research strategies, which will give them critical mass and world level capacity in key areas of research.

2.6 To date, €604.5 Million has been allocated to third level institutions under this competitive programme for research. This includes substantial funding from private philanthropic sources who have supported the strategic focus and competitive basis of the programme.(Appendix 4)

2.7 The objectives of the programme are

- To enable a strategic and planned approach by third-level institutions to the longterm development of their research capabilities, consistent with their existing and developing research strengths and capabilities;
- To promote the development of high quality research capabilities in third-level institutions, so as to enhance the quality and relevance of graduate output and skills;
- Within the framework of these objectives, to provide support for outstandingly talented individual researchers and teams within institutions and the encouragement of co-operation between researchers both within the institutions and between institutions having particular regard to the desirability of encouraging inter-institutional co-operation within the two parts of the binary system and within Ireland, the EU and internationally.

Science Foundation Ireland

2.8 Science Foundation Ireland (SFI) is investing €646 million between 2000-2006 in academic researchers and research teams who are most likely to generate new knowledge, leading edge technologies, and competitive enterprises in the fields underpinning two broad areas:

- Biotechnology
- Information and communications technology.

SFI makes grants based upon the merit review of distinguished scientists.

2.9 SFI also advances co-operative efforts among education, government, and industry that support its fields of emphasis. It provides grants for researchers from around the world who are based in Ireland, for outstanding research visitors, for conferences and symposia, and for collaboration with industry.

2.10 These were very welcome initiatives and represent the delivery of significant funding into third level domains. The methodologies utilised by the Government Agencies in prioritising and channelling these investments deserves much credit and represents a new and enlightened approach to the allocation of funding. It is fair to say that the research initiatives have both transformed the academic research landscape and elevated the ambitions of the entire research community.

Review and Prioritisation of Capital Projects in the Higher Education Sector – The Kelly Report

2.11 Notwithstanding the unprecedented level of funding for research, the burgeoning numbers of undergraduate students entering our third level institutions over the last fifteen years have not been matched by a corresponding increase in undergraduate teaching facilities, student services and general campus infrastructure.

2.12 The Kelly review group was established in June 2002 arising out of the intention of the then Minister for Education and Science to 'review all capital projects in the third level sector to provide for prioritisation and phasing in the context of a multi-annual programme'. It was agreed that the HEA would manage the review which commenced in June 2003.

2.13 It would appear that the scale of investment required and requested by the third level sector was very significant. Excluding the Grangegorman development for DIT, the submissions from the institutions totalled €1.95 billion.
This does not include the requirements of some institutions that had followed the pre-qualification criteria and rigorously prioritised their submissions.

2.14 The Kelly Report found that:

"many key parts of the building stock have seriously deteriorated to such an extent that major replacement projects are now required. Failure to provide for such projects will create a skills shortage of a different kind to that seen in the 1990's – not a demand-driven crisis but a supply-driven crisis"

2.15 The Report further stated that:

"the Group found that significant investment is required to bring many of the existing buildings – almost one-third of the existing stock – into line with health, safety and access requirements"

2.16 The Kelly Report in addition to raising a number of policy and other technical issues, recommended a ten-year investment programme of €933 million in the third level building stock and a refurbishment/re-equipment programme of €110 million annually for the foreseeable future. It was recognised by the institutions when making their submissions to the Kelly review that the burden cannot fall fully on the State and that innovative tax, donor, debt, commercial and other financing schemes were also needed to deliver the programme.

The December 2005 Announcement on Capital Expenditure in Third Level

2.17 In his 2006 Budget Statement on 7 December 2005 the Minister for Finance announced a major €1.2 billion expenditure programme for higher education over the period 2006 to 2010 which was subsequently elaborated by the Minister for Education and Science. This comprised a €900 million capital programme for investments in modern facilities and €300 million for the Strategic Innovation Fund to stimulate excellence through competition and change.

Capital Investment Programme

2.18 In December 2005 the Minister for Education and Science gave the go-ahead for 35 major third level building projects recommended in the Kelly report as part of the €900 million package over the following five years. Eighteen of the

projects would be delivered using direct exchequer funding of €305 million and the remaining seventeen under a PPP programme.

The Strategic Innovation Fund

2.19 The Minister for Education and Science has indicated that the €300 million Strategic Innovation Fund is to stimulate reform and development in the sector as recommended by the OECD. Reform at third level and the creation of a strong fourth level system is a major policy priority. A call for competitive proposals from institutions for the first tranche of €40 million from the Fund has just been announced. It is modelled on the successful PRTLI methodology and emphasises collaboration between institutions and focuses on internal restructuring, teaching and learning reform, quality improvement, enhanced access and progression and improved management information systems. The key objectives of the SIF are:

- to enhance the delivery of core activities of education and research, through effective and creative institutional and inter-institutional collaboration and including where necessary, appropriate internal restructuring and rationalisation efforts;
- to support enabling measures to prepare for the expansion and development of post-graduate education (including expansion and development of graduate schools), including both intra - and inter-institutional collaboration;
- to support innovation and quality improvement in teaching and learning, including enhanced teaching methods, programme restructuring, modularisation and e-learning;
- to support access, retention and progression both at individual institutional level and through inter-institutional, sectoral and inter-sectoral collaboration.

The Strategy for Science, Technology and Innovation 2006-2013

2.20 The publication of this strategy in June 2006, and the ambitious investment targets it sets for the third level and private sectors, will have further positive implications for promotion of research facilities and numbers of higher degree students in Higher Education Institutions.

2.21 The Minister for Enterprise, Trade and Employment in his address at the launch of the strategy in June 2006 stated the following:

"We are committed to delivering significant increases in research capacity, quality and output. This will be accompanied by increased levels of investment in our Higher Education Institutions, combined with renewal and reform. World-class research teams will be built and the output of our PhD's will be doubled. As part of this, we will remove obstacles to the mobility of researchers. This, when coupled with attractive funding opportunities, will make Ireland highly competitive in the international talent stakes.

The challenge is great. The cost is also substantial – coming in at roughly €3.8 billion over the lifetime of the strategy. This involves securing and significantly expanding existing base-plans, which were themselves placed at historically high levels in December's Budget. Total government expenditure on the plan will amount to €2.7 billion by 2008. The Minister for Finance has made the appropriate financial provisions to facilitate this. This compares with €2.5 billion for the 6-year period 2000-2006."

2.22 The Minister for Education and Science, at the same launch, stated that:

> "The growth of cutting edge research activity and the development of world class facilities and structures at fourth level will have a transforming impact on our higher education institutions. Previous experience with the Programme for Research in Third Level Institutions (PRTLI) indicates that this will have hugely positive benefits for the quality of teaching and learning at third level."

Conclusion

2.23 The new initiatives recently announced by the Government for funding of Third Level development, as well as the new strategy for Science, Technology and Innovation, have been welcomed by all concerned as ground- breaking moves. The National Development Plan covering the period 2007 to 2013, in relation to investment in economic and social infrastructure for the period ahead, will be finalised later this year. The Minister for Finance has already indicated that one of the key features of the Plan will be major investment in Education at all levels with a particular emphasis on the 3rd and 4th levels in tandem with continuing investment in labour force training and lifelong learning, and that the Strategic Innovation Fund will be a central part of the NDP investment in higher education.

2.24 All of these initiatives involve significant financial commitments by the Exchequer. In view of this, and given the large needs for new funding to improve facilities as outlined above, it is important that every effort is made to increase the provision of funding from private sources to assist in this task in the years ahead.

SECTION 3

THE STATUS OF PHILANTHROPY IN THE THIRD LEVEL SECTOR

Background

3.1 The university sector in Ireland has to a greater or lesser extent always relied on philanthropy through the centuries. In the 1970s, however, the State invested in third level education on a scale not seen before. One of the consequences of this was a growing dependency by the sector on the State.

3.2 Both the State and the Higher Education Institutions have an interest in broadening their sources of funding. This is where increased philanthropic giving has a role, even if it will take time to develop that role fully.

3.3 It is clear that philanthropic giving is not nearly as well advanced in Ireland as in some other countries, especially the USA. There is no reason why, over a period of years, we cannot create the necessary awareness and promote a culture of

giving for higher education. This will require an increased effort by all the institutions concerned, and especially by those who do not have a tradition of promoting donations to their institutions.

3.4 The new Social Partnership Agreement, "Towards 2016", makes an important policy statement in this regard - "The Government recognises the valuable work being carried out by organisations which promote philanthropy in Ireland and will continue to explore ways to facilitate philanthropic work, strengthen and deepen a culture of philanthropy in Ireland, and maximise the contribution of philanthropy to the common good."

3.5 Philanthropic funding has increased significantly since the early 1990's, with most of these funds coming from outside the State. The role of one donor, Atlantic Philanthropies, has been particularly beneficial to Irish higher education. In the past five years, however, there have been a number of notable developments. The level of funding from the US has decreased. In particular, there has been the announcement by Atlantic Philanthropies that they would no longer make grants solely to support the strengthening of the university sector.

3.6 While donations from abroad will continue to be important a new element is that, for the first time in the history of this State, there is a large number of significantly wealthy individuals resident here. Philanthropic funding from within Ireland, from Irish individuals and companies - has in fact increased but not yet at a rate that would be commensurate with the rate of increase in wealth here.

Fund-raising Capacity

3.7 Institutions abroad have built up fund-raising capacity through the recruitment of highly professional staff. Organisations in the USA such as the Council for the Advancement and Support of Education, (CASE) and the National Association of College and University Business Officers, (NACUBO) offer advice and support to the sector in the whole area of philanthropic fund-raising.

3.8 We have indicated in Section 8 how a pilot matching funding scheme might be used to help meet this objective of building fund-raising capacity. In addition, the HEA and the Third Level Institutions themselves should more actively publicise the availability of tax incentives for donations.

3.9 The HEA does not have a database for philanthropic giving to third level institutions. Based on figures included in the Internal Review of Certain Tax Schemes published by the Department of Finance in February 2006, it appears that donations to Irish universities from donors based in Ireland or overseas have, in broad terms, been running at a level of some €50 million per annum.

3.10 One end of the spectrum in third level fund-raising is what is commonly called "alumni fund-raising" where the institution's alumni, friends (sometimes parents and current students) are encouraged to make small regular gifts out of their income. The decision to make a gift will be informed by the donor's (mostly PAYE) salary and may be individually modest, at least initially, but in total can account for a significant part of overall donations.

3.11 Alumni fund-raising is very important as it helps attract unrestricted funding. This is particularly valuable as these funds can be used strategically and are not tied to particular projects. This form of fund-raising is part of a process of growing a donor base and encouraging some of them to become larger contributors in the future.

3.12 At the other end of the spectrum, wealthy individuals can provide very significant individual donations. One large university's development office that we consulted indicated that:

- In the past 5 years it has raised just over €110 million. The top 100 of these gifts (by value) account for over €107 million – an average gift in excess of €1 million. Excluding Atlantic Philanthropies, the total raised is €79 million, bringing the average gift to over €750,000.

3.13 This university is clearly benefiting from the transfer of accumulated wealth as well as income via smaller donations. Care should be taken in interpreting these figures, however, as university fund-raising foundations will "book" gifts based on a written pledge, whereas the audited accounts will only reflect actual receipts according as funds are received by the university from the foundation.

3.14 The view taken by the Working Group was that the wealthy can be incentivised to give if they see some or all of the following:

- that what the donor is supporting is clearly additional to what the university is doing and is not replacing State funding
- that their investment has a significant leverage effect in attracting other funding
- that they are incentivised or at least not penalised for giving.

Conclusion

3.15 More can and should be done to promote philanthropic giving to Higher Education Institutions. Some institutions which have not been active in this field may need assistance to raise the level of their game. We also need to be satisfied that the important tax concessions already in place are sufficiently broad for purpose, in the light of the experience of other countries, and that they incentivise donations of not only income but accumulated wealth. The Working Group kept these considerations in mind in examining each of the areas that follow in this report.

Recommendations

3.16 The Working Group recommends that:

- The HEA should consider how it can more actively promote philanthropic fund raising by third level institutions, especially by those who need to build up or improve their capacity to raise such funding.
- Both the HEA and the HEIs should take steps to publicise more widely the tax incentives available.
- While having regard to the sensitivities involved the HEA should consider how, whether by annual survey or otherwise, it could obtain information more systematically on philanthropic fund-raising and its breakdown.

SECTION 4

TAX RELIEF FOR PHILANTHROPIC DONATIONS

Background

4.1 A composite general scheme for income tax relief (at the taxpayer's marginal rate of tax), in respect of cash donations to approved bodies, including universities and colleges, was introduced in 2001. It is set out in Section 848A of the Taxes Consolidation Act. The new scheme brought together, rationalised and extended various separate schemes that had existed up to then. In putting forward the legislation in the Dáil the then Minister for Finance said that the new scheme – which has a minimum donation of €250 a year with no upper limit - would apply to donations to all charities which have tax exempt status for three years and to first and second level schools and third level institutions. He said that:

"I am aware of the enormous contribution made by charitable donations in the United States, triggered by their tax relief arrangements. We have a tradition of voluntary effort and charitable donations in Ireland and this should be encouraged."

4.2 Thus the 2001 scheme represented a significant development in the purposeful use of tax incentives to promote philanthropic giving in this country for various purposes, including support of higher education bodies.

Review of Scheme

4.3 As part of the wider review of tax incentive schemes foreshadowed by the Minister for Finance in his Budget Statement on 1 December 2004, a review of the donations scheme was undertaken in 2005 by the Department of Finance and the Office of the Revenue Commissioners.

4.4 The report of the review (as published in February 2006) noted that in 2004 €14.8 million overall was refunded by Revenue to charities and other bodies in respect of claims by PAYE taxpayers for relief on donations. Of this, 65 per cent went to the religious sector, 6.1 per cent to community organisations, 19.6 per cent to the relief of poverty and 8.8 per cent to other approved bodies. The latest estimate then available of tax foregone arising from claims from the self - employed was €5.1 million in 2002. No figures were available in respect of the cost of donations by companies, although a survey carried out by the Department of Finance suggested that at the time of the review the donation scheme was not a significant factor in leading companies to increase the amount they donate.

4.5 As regards individuals, the review commented that it was impossible to say with any certainty if the existence of the tax relief has led to a greater level or higher number of donations. However there was clearly an upward trend in donations which charities should capitalise on by encouraging donors to plan their giving in a tax efficient manner.

4.6 In dealing with the universities, the review noted that a significant proportion of their donations came from donors based overseas who do not benefit from the

tax relief. It noted that the Conference of Heads of Irish Universities (CHIU) (now the Irish University Association - IUA) had indicated the following approximate average annual donations received over the past 5 years that were eligible for relief under the scheme: Trinity €6.5 million (42 per cent of all donations over the period), UCD €3 million (25 per cent of all its donations over the period), NUI Galway €1.6 million (23 per cent of all donations) and UCC €0.9 million (13 per cent of all donations). CHIU estimated that for the other three universities the relevant annual average figure would have been €1-2 million each.

4.7 The review recommended that:

- The structures of the scheme should be retained as they are. Organisations were still working to make their donors aware of the existence of the scheme and time should be allowed for the structures to become established.
- Efforts should be made to improve the data collection for the scheme so that information is available with regard to the overall cost of the scheme and by category of donor.
- The relief should not be extended to non-cash donations "as no tax charge arises on the donation of an asset to a charity". It added that it would be difficult for Revenue to value these assets.
- There should be continued vigilance on the part of Revenue to ensure that the schemes are not abused and that the qualifying condition that no benefit is conferred on the donor as a result of his/her donation is respected.
- Charities and other approved bodies should promote the scheme more widely.

Budget 2006 Extension of Scheme

4.8 As part of the review announced in the 2005 Budget The Irish Charities Tax reform Group and CHIU had suggested that the scheme be extended to cover non-cash assets, in the first instance to shares and securities.

4.9 Following an interim recommendation by the Working Group the Chairman of the HEA had also made representations to the Minister for Education and Science in November 2005 proposing the inclusion in the scheme of non-cash gifts such as property and shares. He pointed out that this would be more in line with the position in the USA, UK and Australia which have been very successful in promoting transfers of wealth for charitable and educational purposes. He added that the making available of an income tax incentive for such donations (in addition to the current capital gains tax exemption) would represent a major advance here in the arrangements to promote philanthropy.

4.10 In his 2006 Budget Statement on 7 December 2005, following the review of the incentives, the Minister for Finance announced extension of the donations scheme to include donation of publicly quoted securities with effect from 1st January 2006. This was an important development in terms of broadening the scope of the scheme. The Minister indicated that details of the change would be included in the 2006 Finance Bill.

Inclusion of Land and Buildings

4.11 While the inclusion of quoted securities is welcome the Working Group has recommended that the non-cash category should extend as well to donations of land and buildings. These types of assets qualify for donations tax relief in

both the USA and the UK. In the USA the real estate element covers about 16 per cent of non-cash donations. Specific figures for donations of real estate to the education sector there are not readily available but it is clear that donations of land and buildings could be of considerable benefit to third level institutions, whether for direct use by them or to be used or disposed of as part of their assets.

4.12 The Group acknowledge that different valuation issues arise for land and buildings than for quoted securities, and that measures would be required to counter possible abuse. The problems are not insurmountable, however, and appropriate arrangements have been made in both the USA and UK for the donor to provide professional certification of fair market value. In the USA, where there has been concern about possible abuse, the regulations have been kept under review and tightened as appropriate.

Capital Gains Tax Problem

4.13 Where an asset is donated to an eligible charity the donation has been deemed to be such that neither a gain nor a loss accrues to the donor on the disposal. On this basis no Capital Gains Tax (CGT) charge arises.
The relevant provision underpinning this treatment is contained in Section 611 of the Taxes Consolidation Act.

4.14 In the report of the internal review of incentives by the Department of Finance and Revenue, in arguing for not including non-cash donations within the scheme, reference was made to this provision and it was stated: that "- no tax charge arises in respect of such a donation and any gain on a subsequent disposal of the asset by the charity is not a chargeable gain provided it is applied for charitable purposes only. Income tax relief on the value of an asset donated together with the current CGT exemption, would amount to a double relief."

4.15 As indicated above, the Minister decided in the event to extend the donations scheme to quoted securities. However, in the Finance Act 2006 (Section 20) the detailed provisions stipulate that a donor cannot get both income tax and capital gains tax relief in respect of the same donation.

4.16 The Working Group considers that this treatment of denying CGT relief if the donor seeks a reduction in income tax is not satisfactory when dealing with assets that may have appreciated in value. Unless changed, it could represent a significant obstacle to the donation of such assets and could undermine the extension to non-cash assets as intended in the Budget 2006. This has been recognised in the USA and the UK where relief from both CGT and income tax apply in such circumstances. The relief from CGT is viewed in the USA as the elimination of a disincentive that would otherwise apply in the case of an asset (held for over a year) that has appreciated in value, whereas the availability of relief from income tax is seen as the giving of a positive incentive to donate.
It is not viewed in those countries as constituting double relief.*

** In the USA the income tax deduction that can be claimed is limited to 50% of the donor's gross adjusted income. It may be limited to 30% or 20% depending on the type of property or the type of organisation to which the donation is made.*

4.17 The Working Group recommend that the previous position as regards CGT exemption should be reinstated so as to ensure that the policy objective of extending the scope of the donations scheme will be achieved.

Serious Adverse Impact of 50% Reliefs Restriction

4.18 This is the most serious issue that arises at present. When the 2006 Finance Bill was published it emerged that donations relief would fall within the scope of the annual cap being introduced by the Government on the use of tax reliefs by certain high-income individuals. The provision remained unaltered in the Bill as enacted and applies as from 2007.

4.19 While fully appreciating the Government's policy objective in introducing the restriction on recourse by wealthy individuals to reliefs for tax reduction purposes, the Working Group consider that the inclusion of the donations relief within the scope of the restriction could have major adverse effects on philanthropic donations and, more importantly, could undermine the positive steps taken by the Government to promote a culture of giving. Although the arrangements allow some flexibility in carrying forward unused reliefs from one year to the next this is not sufficient to offset the adverse impact on those intending to make large gifts.

4.20 It seems to the Working Group that the reasons for bringing in the cap do not apply in the case of such donations which are fundamentally different from the other uses of tax reliefs. In the case of property investment the investor enjoys the benefits of the investment as well as getting tax relief. There is no such benefit for a donor under the Section 848A scheme. In fact, it is a specific condition to qualify for donations tax relief that no benefit should accrue to the donor from the donation. This restricting measure could impact quite severely on third level institutions which would be beneficiaries of relatively large individual donations.

4.21 The Working Group would strongly recommend that consideration be given to removing the donations scheme from the list of reliefs specified for the purposes of this restriction.

Recommendation

4.22 The Working Group considers that the tax incentive scheme for donations is a significant part of the infrastructure needed to promote philanthropic giving in Ireland in the years ahead. We welcome the willingness shown by the Government to extend the scheme. The Working Group did not focus on administrative aspects of the scheme which were the subject of the recent Finance/Revenue review.

4.23 To ensure that the policy objectives can be met the Working Group recommends that the HEA should continue to seek:

- that land and buildings be included in the scope of the scheme,
- that, notwithstanding a claim for income tax relief, a donor should not be subject to CGT on appreciated assets donated under the scheme, and
- that the donations scheme be removed from the list of tax incentives specified for the annual cap on the use of tax reliefs.

SECTION 5

PLANNED GIVING - CHARITABLE REMAINDER TRUSTS

Background

5.1 The scheme of income tax relief in Ireland in respect of donations to charitable bodies, now applying to donations of securities as well as cash donations, is an important element available to promote philanthropy to third level bodies. In looking at the possibilities one must also take account of other reliefs in the existing tax system. Currently, for Capital Gains Tax purposes, where a non-cash asset is donated to an eligible charity the donation is deemed to be such that neither a gain nor a loss accrues to the donor on the disposal (See paras 4.13 to 4.17 for interaction with income tax deduction schemes). Similarly, where assets pass on death there is no Capital Gains Tax payable. In addition, gifts for public or charitable purposes are exempt from Capital Acquisitions Tax. These are important elements in the infrastructure to support philanthropy including bequests made on the death of the donor.

5.2 Our research in the United States indicates that the planning of transfers of accumulated wealth, not just income, is an important aspect in the promotion of philanthropy for educational purposes. The arrangements are designed to encourage maximum gifts to the charities involved and to give donors significant tax incentives to do so, while continuing to cater for their own needs. In planning such transfers active use is made, not only of the initial income tax relief for a wide range of donations, but also of structures which allow donors to continue to draw income or other advantages from their wealth during their lifetime while making donations.

5.3 US tax law recognises and facilitates various forms of trust structures which are used for this purpose. Most prominent of these is the Charitable Remainder Trust (CRT) which has recently attracted interest outside the USA - notably in Australia and the UK - in discussions on how better to promote philanthropic giving for the financing of third level education. At this stage of wealth accumulation in this country it is appropriate that we look at the relevance of such arrangements to the promotion of philanthropy here.

5.4 While the emphasis in what follows is on the CRT it is by no means the only vehicle being used in the USA. There would be merit in taking a wider look in due course at the full range of possibilities allowed under US tax law.

Charitable Remainder Trust (CRT)

5.5 While CRTs can be complex the basic approach is for a donor to part with property but to retain certain rights to income from it. In this sense CRTs are sometimes referred to as 'split income' trusts - the rights to capital and income being split between different entities. A donor with property that has appreciated in value - e.g. land or securities - places the property in the CRT. This represents an irrevocable donation on the part of the donor. The property is then independently managed by the trustee, usually a bank. The latter can sell the property and reinvest the proceeds so as to generate an income stream for the donor for life or for a defined number of years.

At the end of the life of the donor or other nominated beneficiaries the third level institution owns the assets remaining in the CRT.

5.6 As regards the income stream for the person setting up the trust, or for his/her dependents, there are two main types of arrangement in the USA. With a CRT annuity trust (CRAT) the trustee pays a fixed annuity to the donor. Under the Uni trust (CRUT) the income payment to the donor can be expressed as a fixed percentage of the annual income or gains of the trust, or of the fair market value of the assets in the CRT, which amount would then vary in absolute terms.

Tax Arrangements

5.7 Tax law in the USA facilitates the establishment of the CRT by:

- allowing the trust to dispose of assets that have appreciated in value without incurring any tax on the income or gains;
- allowing the trust to pay an annual income to the donor from the funds in the trust;
- allowing the donor to claim an income tax deduction upfront in respect of the assets given to the trust. This deduction is based on the discounted present value of the assets expected to remain in the CRT on its termination.

Advantages of CRT

5.8 From the standpoint of the third level institution the advantages of the CRT are that:

- it gives an early and irrevocable commitment by the donor;
- although the institution will not receive any immediate cash the CRT locks in the residual funds for the future;
- the institution can also borrow against the expected future receipts;
- the links between the donor and the institution are strengthened.

5.9 From the point of view of the donor the advantages are that:

- it allows him/her to make a significant donation to an educational institution or other charity;
- an income tax deduction based on the present value of the expected remainder value of the trust is obtained upfront. This can be used, if necessary over a period of years, to cover income tax on annual income received from the trust (which is taxable in the normal way) or income from other sources;
- it reduces taxation that may arise on the death of the donor when the estate is passed on;
- it may help to release value from assets (e.g. undeveloped land or assets which would have a low base for Capital Gains Tax purposes) which could more easily be sold via the trust.

Importance of CRTs

5.10 It is understood that funds donated through CRTs have represented a significant element of overall donations for third level in the USA. There are some indications that use of CRTS in the USA may have reduced somewhat in

the past few years in favour of setting up of private family foundations to manage donations, although they are still an important element and continue to attract interest in other countries.

5.11 While separate figures are not available the total of "deferred gifts" (i.e. a future gift for which a donor makes a provision now through a will, CRT or other contractual arrangement) accounted for 11% of personal gifts to higher education in the USA in 2004 when the gifts are valued at their face value, discounted to present value, such gifts represented 5% of the total.

5.12 While a new CRT does not provide immediate funding to third level the experience in the USA is that they can, over time, provide an ongoing source of funds if a CRTs portfolio can be built up - as one trust matures others can take its place and provide future funds.

Changes in tax law would be required

5.13 We are not aware of any obstacle in general law in Ireland to a donor establishing a CRT as things already stand. It seems clear, however, that to incentivise and facilitate the arrangement in respect of donations to third level institutions changes in tax law would be needed. In particular, the element under which some of the income/assets of the trust would be paid out to the donor over the life of the arrangement would appear to require specific provision to be made in tax law. Otherwise, the entire income/ assets of the trust could well be regarded as still belonging to the donor.

Scope for Abuse

5.14 In the USA the use of CRTs is seen as an important part of an active approach, by tax and other professionals as well as wealthy individuals, to the transfer of wealth and minimisation of tax. It is recognised too that the CRT arrangement carries risks of abuse for tax avoidance purposes e.g. through third parties becoming involved to get benefits from the trust or by the donor still being involved in the management of the assets. To counter this, detailed rules have been introduced, both as regards the operation of the trust and the appropriate tax treatment of different types of payment (income, capital gains etc.) that may be paid out to the donor. The Internal Revenue Service (IRS) makes available detailed sample trust instruments setting out the provisions and undertakings that would apply.

5.15 Discussions which are ongoing in the UK in the third level sector on possible development of CRTs also recognise the scope for tax abuse and the need to deal with that aspect in any proposals that may be made there. The anti-abuse aspect would also be a critical factor in this country, so as to ensure that any arrangements made would not cut across a major objective of current tax policy, that every individual should pay a fair share of tax.

Recommendation

5.16 It is recommended that:

- provisions be sought in tax law here to facilitate the use of CRTs in promoting philanthropy for third level funding;
- any such provisions should contain appropriate measures to guard against possible abuse; and

- further work be undertaken in due course to examine whether there are other trust arrangements in the USA that might be suitable for adoption here without facilitating abuse.

SECTION 6

EXISTING PROJECT AND INSTITUTION - BASED INVESTMENT

Background

6.1 The use by the State of construction - related tax allowances to channel funds into third level building projects has been a significant and very welcome source of funding additional to the normal direct capital grants over a number of years. In recent years the two key tax structures have been the Section 843 scheme for donor-matched projects and the Section 50 scheme for residential accommodation.

Policy Review

6.2 The recent reports prepared by Indecon Economic International Consultants, Goodbody Economic Consultants and the Department of Finance and the Revenue Commissioners - as a basis for recent Government decisions on future tax policy in this area - questioned the appropriateness of some of the property schemes that have been widely used to incentivise selective developments in the recent past but which in the process have facilitated wealthy individuals in reducing their effective rate of tax. Both the Section 843 and the Section 50 schemes were recommended for elimination as part of the overall recommendations for phasing out property related schemes in order to ensure that everybody pays a fair share of tax.

6.3 This section of the Working Group's report comments on both these schemes. In the case of Section 843 the Working Group generally accept the Indecon findings. However, in Section 7, we recommend that a risk-sharing scheme similar to the schemes currently applicable to the private hospital and nursing home sector - which are being retained by the Government - be extended to the third level sector. We would also contend that the Indecon report, in recommending discontinuance of Section 843, did not fully recognise the importance of the principle of matching funds to leverage philanthropic donations. We address this issue in Section 8 and also in Section 10 when we discuss VAT issues.

6.4 In the case of the Section 50 schemes we would contend that the Indecon Report did not take into account two of the most significant considerations, firstly, the continuing shortage of third level accommodation in some locations,

particularly in Dublin, and secondly, the potential withdrawal of off-campus Section 50 accommodation from the student market when the 10-year tax shelter window finishes. These issues are addressed in more detail below.

Section 843

6.5 This relief provided for the granting of capital allowances over a seven-year period on capital expenditure on certain third level buildings where specifically approved by the Departments of Education and Finance. A key requirement was that the third level institution must have raised a philanthropic donation from private sources equivalent to at least 50 per cent of the total qualifying amount. The scheme operated from July 1997 to July 2006 with project approval required prior to December 2004. Under the decisions now made by the Government certain transitional reliefs apply in the period to end July 2008 to projects that were already in the pipeline and the scheme will then terminate.

6.6 Section 843 was introduced as a scheme to promote partnership with the private sector and encourage capital investment in the area of third level education. Though primarily envisaged, and applied, as a mechanism to facilitate funding of campus support facilities without direct State capital grants, it was also applied in cycles 1 and 2 of the PRTLI funding rounds - Programme for Research in Third Level Institutions. In this latter role, it assisted in leveraging private donations of €146 million, or 36% of the capital cost of the research programme (Appendix 4). While there were reservations expressed over the use of the scheme for this purpose, both by the institutions themselves and others, the Section 843 scheme was an essential component in the successful implementation of PRTLI cycles 1 and 2.

6.7 Outside of PRTLI, the scheme was a key component of a wide variety of developments on the campuses including library, IT, clinical sciences, teaching and general campus developments. Of particular significance was its use for student facilities including sports facilities, where the combination of philanthropic aid, the Section 843 scheme and other funding streams were successfully combined to deliver facilities that the institutions could not have expected the State to provide nor been able to finance on their own. Without this tax incentive and the associated gifts, the burden would have fallen back fully on the third level institutions and the State or, most likely, the student cultural and sporting facilities would not have been provided at all in many instances.

6.8 In relation to Section 843, the Indecon report found that, among the institutions that utilised it, the scheme facilitated investment in research and led to the development of new R&D facilities as well as an improvement in existing ones. The report also concluded that the incentive most likely had significant economic benefits and the consultant also believed that continued investment in the sector is needed. This conclusion is also borne out by the Kelly Capital review discussed in Section 2.

6.9 The Indecon report's main argument was that the incentive resulted in very little cost savings for the institutions and that these savings were a fraction of the Exchequer costs. They also contend that it would have been more cost effective for the institutions to have borrowed the funds.

6.10 The Working Group accepts generally the conclusions of the Indecon report in relation to Section 843. However, the Indecon report did not address one very important issue, that is, that for institutions to be successful in fund-raising, donors usually require that funds they contribute to the third level sector are

matched by some level of State funding. The Section 843 scheme was a key component in meeting this requirement. With the phasing out of the Section 843 scheme, it seems to the Working Group that an alternative mechanism to provide funding to match philanthropic funding for specific projects is desirable, consistent of course with Government tax policy. This aspect is dealt with more fully in Section 8.

6.11 The Working Group fully appreciates the rationale for the Government's decision to phase out certain property based reliefs and, in the case of the third level sector, the important direct Exchequer investment programmes that are now in place. Notwithstanding the reservations about Section 843, including the criticism that the tax investor was a 'passive' participant in the transaction, Section 843 was, in our view, a very important incentive in leveraging significant funding for the sector both under the PRTLI scheme and otherwise. We feel that, an alternative scheme addressing specifically the issue of the 'passive' investor and requiring that the tax incentive only be given where real risk transfer from the institution to the investor takes place, is worthy of consideration. Such a scheme, analogous to the schemes currently in place and being retained for the private hospitals and nursing homes, is proposed in Section 7 of this report.

Section 50 Student Accommodation

6.12 While the Indecon recommendation to drop the Section 843 scheme was based essentially on cost grounds its recommendation to discontinue the Section 50 scheme, as set out in Budget 2006, emphasised the view that its objectives had largely been met and that the latter scheme was no longer needed - indeed, that over-supply of accommodation was now an issue. The Working Group does not agree with this conclusion.

6.13 This scheme was introduced in the 1999 Finance Act with the intention of increasing the supply of suitable student accommodation in the vicinity of third level institutions.

6.14 In summary, the relief provided for a deduction of 100% of the construction, conversion or refurbishment expenditure, which may be off-set against all Irish rental income – whether derived from the premises in question or from other lettings. The scheme provided guidelines as to which institutions qualify, conditions relating to the standards and location of accommodation and the categories of students whose accommodation would be covered. For instance, the accommodation must be provided within an 8km radius of the main campus of the institution approving the scheme and the first letting must be to students of the certifying educational institution.

6.15 It is fair to say that the incentive has been highly successful. All seven universities have been able to significantly improve their student housing stock through the scheme. In some locations, the current accommodation requirements have been fully met either by university owned on-campus developments or by adjacent privately owned schemes. This is by no means the position everywhere, and certainly not in Dublin where land prices have mitigated against privately owned developments and the demand for residential places remains very strong. The Working Group had available to it figures for likely significant additional accommodation demands from third level institutions in the period ahead. These have already been supplied to the Department of Education and Science (correspondence at Appendix 1).

6.16 The recently published Eurostudent Report on the social and living conditions of Irish higher education students for 2003/04 points to this continuing strong demand for on-campus student accommodation. The current breakdown between the various types of accommodation is as follows:

Rented house/flat	39%
With parents/relatives	33%
Own household/family owned	17%
College residence on/off campus	7%
Lodgings/digs	4%
Total	**100%**

6.17 These statistics starkly illustrate the relative paucity of college residential places and appear to be at odds with the concerns expressed to the consultants in their survey work that demand for student accommodation has been largely met and that there is a risk of over-supply. The figures show a strong dependence on off-campus private rented accommodation. The projected growth in student numbers, as well as the objective of doubling the number of PhD numbers set in the recently published Strategy for Science, Technology and Innovation, will put further pressure on the existing supply.

6.18 The market could be squeezed further with the likelihood that current private off-campus student accommodation developed under Section 50 will revert to private apartments once the tax relief period has expired. The conversion of Section 50 developments to private use apartments is a key factor that does not appear to have been factored into the consultant's report on the review, even though the report accepts that this is the most likely outcome for accommodation outside campuses. Some, if not most, off-campus developments have been specifically designed with this in mind and, in some cases, we believe that conversion plans are already in place for when the ten-year tax relief period is over.

6.19 The number of on-campus bed spaces which have been developed on the seven university campuses to end - 2005 is 9,642. Given the statement in the Indecon Report that there were 15,317 new bed-spaces developed to end - 2004, and allowing for some small developments by other third level institutions in the interim, this leaves a substantial number of off-campus private developments which could be converted to private apartments as soon as the relevant tax period expires. While the Working Group appreciates that the Government have decided to phase out this relief, it would appear that, without the continuation of the incentives provided by the Section 50 scheme, there could be a significant reduction in student residential facilities some years ahead. There may be further private off-campus developments currently being facilitated but these will not address the long term student accommodation demand as they could also revert to private apartments once the tax period has expired.

6.20 A continuation of the scheme, but with a limitation of the allowance only to on-campus residences owned by third level institutions and with an extension of the qualifying period to twenty years, would effectively address the danger of oversupply and limit the use and tax cost of the scheme to real needs. On-campus developments would not then be converted to private rentals nor is it likely that there will be over-development as the scheme would be limited by

the amount of land available to the third level institution and by the housing requirements of that institution.

6.21 The Indecon Report further highlighted the cost of the scheme in foregone tax although this was not the basis for the recommendation to discontinue. We would draw attention to the fact that, in the case of third level institution developments, the institution shares the tax relief with the individual investor on a 50:50 basis with the cost of the relief to the State effectively reducing to 21%.

6.22 A final point to consider, which was also not mentioned in the Indecon Report, is that third level institution residential developments must be self-financing. The financial models in use rely on older schemes financing newer schemes as the debt on the older schemes is retired. Financing and construction facilities must be carried out over an extended period of time to avoid the risk of exposure to high levels of debt. The Section 50 scheme should be seen in this light and not as a short-term tax incentive.

Recommendation

6.23 For the reasons outlined above, and while having regard to the tax policy decisions already made, we strongly recommend that the HEA should renew its request that the tax incentive scheme for the provision of new student accommodation should be retained, albeit with restrictions. These would include limiting the allowance to third level on-campus developments only, extending the qualifying period to twenty years and any further measures considered necessary to curb abuses.

SECTION 7

BROADER INCENTIVES FOR ON-CAMPUS DEVELOPMENT

Background

7.1 A third level institution community comprises a broad spectrum of stakeholders. In addition to the staff and students, it encompasses the general public who may use the academic, sporting and commercial services on the campus, as well as embracing neighbouring communities who utilise the campus for social and cultural purposes. Campuses are also important venues for industrial and research activities. Financing the infrastructure to service these activities has traditionally been viewed as an obligation of the State. However, in more recent times, private philanthropy has been making an important contribution.

7.2 One mechanism the State has used to channel its contribution is through the provision of tax allowances. These have been particularly beneficial in the area

of student accommodation under the Section 50 funding schemes. As indicated in Section 6 of this report, these schemes allowed the institutions to finance and construct residences without direct State grants. Student rents, which must be targeted at the lower end of the rental price range, finance over 70 per cent of the construction and operational costs. Approximately 21 per cent of the costs (of on -campus accommodation) are financed through the institution's share of the tax allowance with a similar amount being retained as a benefit by the investor.

7.3 Through this mechanism the State has been able to provide significant amounts of student residential accommodation. In recent years the French educational system utilised similar structures through the 'Sale and Leaseback' schemes. The Working Group would strongly urge the continuation of the Section 50 schemes, albeit with some restrictions, and this is dealt with in Section 6 of the report.

7.4 One issue that has rightly been a cause for concern is where a 'passive' investor can avail of a tax allowance without providing a specific service or being exposed to substantive risk. This situation is perhaps justifiable, indeed appropriate, in the case of on-campus residential accommodation given the high level of care required of third level institutions in housing their students and the view that this should be managed directly by the educational body where at all possible. Furthermore, the investor in these Section 50 schemes, in particular the later schemes, is not entirely 'passive' as they do share some of the risk.

7.5 Section 6 did highlight, however, that the investors in Section 843 schemes are essentially 'passive' and accepted that, to justify the granting of tax exemptions in any future schemes, the investor must shoulder the major risks.

Private Hospitals Analogue

7.6 The Indecon Report identified the private hospital and nursing home schemes as ones that both contribute to national policy and carry a risk burden for the investor. On this basis they recommended the continuation of these schemes subject to some changes. The Government has accepted this recommendation.

7.7 Under these schemes capital allowances can be written off over a seven year period subject to the normal conditions. In return for these allowances, which can be provided also for private hospitals built on public hospital campuses, the private hospital commits to provide a certain volume of services for public patients. A discount for the State is also built into the fee charging arrangements.

7.8 Indecon believed that the tax concession would be significant in encouraging the provision of private facilities to help meet national health policy objectives. It recommended retention of the relief notwithstanding that - as with most of these reliefs - it was likely to be availed of by higher income investors. Use of this relief would, however, be subject to the new arrangements restricting the overall benefit which may be derived by a high income individual from tax incentives.

Parallel at Third Level

7.9 There are similar requirements within the higher education sector. It would seem justifiable to apply a scheme similar to the one currently being utilised in the health care sector to the third level education sector provided such schemes transferred the burden of risk from the third level institution to the private operator or investor and obtained a good "deal" from the tax concession.

7.10 Listed below are areas where such a transfer of risk can be identified which would justify incentives to operators and/or investors to shoulder these risks while at the same time making key facilities available to the third level institutions.

Student Facilities

7.11 Currently, there are campus services that are provided by commercial operators, particularly in the catering, retail, social and sporting domains. The services normally operate under license. Given the modest scale of the service and the limited trading year, the licensee usually operates out of an existing third level facility at a sub-commercial license fee. The challenge is to construct an arrangement whereby a licensee can generate a commercial return from supplying a service to a third level institution community, as well as to the business and neighbouring communities, that will justify investment in on-campus facilities. The investor/licensee will take on the business risk alone or on a shared basis in partnership with the third level institution and in return receive a tax allowance against the capital costs of the facility thus reducing, though not eliminating, the investment burden on the State. The investor/licensee would be expected to finance the construction of the facility and to make it available to the institution and student community for specified periods. This would enable the institution to provide campus facilities at no direct capital cost with availability on agreed terms.

Research

7.12 The OECD Review of Higher Education and the DETE report on Building Ireland's Knowledge Economy highlighted the need to develop Ireland's research and knowledge intensive economy. The OECD made it clear that for Ireland to develop research quality and excellence the output of PhD numbers will have to be doubled. The new national Strategy for Science, Technology and Innovation is the cornerstone to achieving this objective and collaboration between institutions and industry will be a significant feature of the plan. The facilities required for implementing the plan, particularly in the Sciences and related disciplines, will be extensive. While many of these facilities must of necessity be funded from State resources, there is merit in considering arrangements to attract industrial/commercial R&D facilities to locate on third level institution campuses and thus complement the research capabilities of the third level institution.

7.13 Access to specialist laboratories and, in particular, specialist equipment, could be facilitated if commercial R&D operations were encouraged to construct on-campus facilities. There would be reciprocal benefit to the R&D companies to locate adjacent to third level institution laboratories. This is a very common occurrence in US universities. The benefit to the R&D companies is the entree they gain to basic research as it develops and moves into the application phase, as well as access to research students who may subsequently be recruited by the companies.

7.14 Given that third level researchers need reciprocal access to a wide range of 'cutting edge' laboratory facilities though possibly only for short duration, such an arrangement would allow third level institution researchers opportunities to use such equipment without the exorbitant costs of ownership and maintenance. The utilisation of tax allowances for the R&D companies on the construction costs together with arrangements for third level institution access

to the specialist facilities would significantly reduce, though not eliminate, the cost to the State in providing these specialist facilities. The operational and obsolescence risk falls on the R&D company.

Teaching Facilities

7.15 Third level institutions also require significantly improved teaching and educational facilities, particularly for graduate or 4th level education programmes. In a similar way to the research facilities, private executive teaching facilities could be located on third level institution campuses that would be made available to the institution's graduate teaching programmes. These facilities, with the aid of tax allowances, could be financed and constructed by private executive and professional teaching organisations. Alternatively they could be financed by the institutions themselves where they operate purely commercial programmes, without the benefit of other forms of State grants or aid, aimed at the domestic executive education market and/or the overseas educational market. The facilities would be funded from private educational fees and, in return for locating on the university campuses, the facilities would be made available to the undergraduate teaching programmes on agreed favourable terms.

Conference Facilities

7.16 A knowledge-based economy must have the ability to host international academic conferences at the highest level. While Irish universities have some of the facilities required to host such conferences within the wider international academic community, there are additional facilities that are required if Irish universities are to match international comparators. Providing these facilities, such as on-campus hospitality, translation, presentation and meeting facilities is expensive. It is beyond the ability of our institutions at present and difficult to justify for the conference business only. If these facilities could be incentivised by an appropriate risk and tax structure, located on campuses and utilised as well for commercial purposes, they could be made available to the third level institution for international academic conferences to complement the general campus environment.

Sporting, Cultural and Recreational Facilities

7.17 These are an essential component of the university experience. They will become an increasingly important component in attracting the best doctoral students and academic staff from abroad. A risk-sharing arrangement, whereby amenities financed and operated by a commercial operator are made available to the wider community but embedded into the campus, would benefit students, neighbouring communities and the institution in attracting overseas students and international conferences.

Ownership

7.18 Third level institutions must retain the integrity of their campus estate for future generations. The arrangements outlined above would allow necessary and appropriate facilities to be provided on the campuses at minimum cost through making the facilities available to outside and commercial users. However, to preserve the long-term integrity of the campus for future generations, these

facilities could only be constructed under appropriate licensing arrangements so as to ensure that the institutions retain the ownership of the land assets. To make the arrangement attractive to commercial investors and operators, given this restriction, a system of tax allowances against construction costs would be a prerequisite.

Recommendation

7.19 It is recommended that the HEA should propose that a tax allowance on construction cost be introduced, similar to that being retained for private hospitals and nursing homes, to encourage commercial operators to finance and operate a commercial or service facility on a third level campus on terms favourable to the State. While full details would have to be elaborated if agreed in principle, this would be on the basis that the facility is made available to the third level institution on agreed terms, long-term ownership of the facility rests with the institution and the facility operates for a minimum of 20 years after which it reverts to management by the institution.

SECTION 8

MATCHING FUNDING SCHEMES

Concept

8.1 The concept of 'helping those who help themselves' is not new in Government initiatives here. At the macro level in this country the most notable example is probably the SSIA initiative. The Government has just announced a new scheme, based on the use of funds in dormant accounts, to encourage matching philanthropic donation to co-fund certain projects. Within the higher education sector the HEA has for some years operated a scheme of Strategic Initiatives under which it matches funds provided by the third level institutions for various projects.

8.2 From discussions in the USA the Working Group became aware of a matching funds programme specifically linked to the promotion of philanthropic giving for educational purposes. Such a programme also exists in Hong Kong and the UK.

Background in Other Countries

8.3 The outcome of the research undertaken into these programmes in other countries is summarised in some detail in Appendix 5.

8.4 In general, Government matching fund programmes are State-based initiatives that encourage private donations to colleges and universities by matching them with public funds. Based on the experience of the USA and Hong Kong in

particular, they have proved themselves as effective strategies to strengthen the capacity for raising independent income of colleges and universities, and to contribute to the development of a philanthropic culture that is supportive of higher education.

8.5 In locations where fundraising for higher education is a novel concept, matching grant schemes have been given extra impetus by additional government investment to promote institutional capacity for fundraising, as is the case in Hong Kong and more recently the United Kingdom where the programme is at an early stage of development.

8.6 The schemes are not a substitute for public funding, nor does the evidence suggest that they lead to a diminished need for public funding, at least in the short term. It would appear, however, that they can be an effective use of public funds to increase private support and to build strategic links between universities, colleges and their constituencies.

8.7 Matching funding schemes have generated significant sums for higher education as evidenced by programmes overall in the United States, and have provided rewarding returns on government investment. They tend to be characterised by relatively short time scales (although some State legislatures have extended programme timelines) and involve detailed specifications of eligibility, minimum and maximum levels of matching, and matching ratios.

8.8 The schemes are most effective where there are adequate State funds to underpin the process, where the relevant economy is robust, and where institutional capacity to rise to the challenge is reasonably developed.

8.9 According to research conducted in 2002 by the Association of Governing Boards of Universities and Colleges (AGB) in Washington DC, 24 States in the United States have created government matching fund programmes. Some 75 per cent support endowments and endowed chairs and professorships, about 21 per cent help fund student scholarships, capital projects, and technology efforts and about 4 per cent are designed to provide resources for research initiatives.

8.10 Most government matching fund programmes in the United States are targeted at public institutions exclusively, but a few States operate programmes that are also open to private colleges and universities. While such programmes take many forms, have varying levels of success and are implemented in a host of ways (given significant differences among institutions, higher education systems, and social structures), the fundamental concept and purpose of the vast majority are remarkably similar, to leverage private funds, enhance the quality of teaching and learning and increase access to higher education.

Assessment

8.11 Government matching fund programmes seem to offer considerable promise for promoting philanthropic giving for education, strengthening the quality of higher education and improving access to colleges and universities. The most successful programmes have been used for launching comprehensive fundraising campaigns, for supporting existing campus programmes, and for enhancing overall private giving.

8.12 As the aforementioned AGB research report states, "The history of American philanthropy suggests that donors will make private gifts to higher education without the incentive of a matching fund programme. However, an opportunity to double or, in some cases, triple the dollar value of a gift provides donors

with powerful incentives". Elsewhere, in places such as Hong Kong and Singapore with different and less explicit philanthropic traditions, donors have responded to the chance to increase the impact of their money in a similar way.

8.13 It can be argued of course that, by providing tax relief for donations, the Government is already matching the private contribution. Our understanding from the USA and Hong Kong, however, is that the separate donation tax relief and matching expenditure commitment schemes operate in tandem without any adjustments between them, with a view to promoting the desired level of philanthropic giving.

Recommendations

8.14 It is recommended that the HEA and the Department of Education and Science should adopt a similar approach to that undertaken by the UK by introducing a pilot scheme of grants in order to promote a climate and capacity for fund-raising in the third level institutions, particularly those where up to now there has not been a history of fund-raising.

8.15 Separately, we believe that the authorities should consider introducing arrangements to provide matching funding in respect of private donations to third level institutions for specific projects. Maintaining the matching fund concept in this way is particularly relevant in the context of the discontinuance of the Section 843 tax based scheme for matching funding of specific projects.

SECTION 9

TAX EXEMPT BONDS

9.1 One of the mechanisms in use in the USA for college funding, in conjunction with philanthropic donations, is that of tax-exempt borrowings. While borrowing has not to date been a significant feature of ongoing funding of third level institutions here, the Working Group decided to have a preliminary look at the possible relevance of such a mechanism in this country in the future.

Position in USA

9.2 In the USA tax-exempt bonds are issued by a State or municipality on behalf of qualifying bodies such as public and private not-for-profit universities and other similar colleges. The bonds are not underwritten by the Federal authorities and do not form part of either the Federal or State debt. Generally they are secured on an earmarked stream of income. A risk therefore arises and this is factored into the price of the bond. As the interest paid to the holder of tax-exempt bonds is not included in their income for Federal income tax purposes,

purchasers will accept lower rates of interest for tax-exempt bonds relative to non-exempt bonds of similar creditworthiness. The arrangement applies not only to traditional bonds but to other forms of financing such as lines of credit, notes and commercial paper.

9.3 Thus, by issuing tax-exempt bonds for qualifying purposes, an institution can achieve a significant saving in interest costs. There are tight rules governing how funds raised via these bonds may be spent. They cannot be used for business activities unrelated to the core functions of the university. Typically, a university might issue tax-exempt bonds to finance the construction of a science building. There are also rules to counter an apparent increased use for investment of the proceeds at a higher rate of interest than that at which the funds were borrowed (arbitrage). Because of the issuance costs and management fees an issue would have to be of a certain size to be viable. It is understood that there are not many issues whose individual value is below $10 million.

9.4 A recent article in the Economist has indicated that debt-raising by universities and colleges is becoming more common-place in the USA and to a lesser extent in other countries, to finance classroom expansion, theatres, stadiums and other facilities.

Borrowing Framework

9.5 In general, the seven universities and other third level institutions here are not empowered to borrow for recurrent activities. Any overruns on annual budgets are a first call on the State grant in the subsequent year.

9.6 The Universities Act 1997 contained a provision (Section 38) whereby universities could borrow provided the borrowing was within a framework agreed from time to time between the Universities and An tÚdarás, following consultation by An tÚdarás with the Minister and the Minister for Finance. That framework was agreed between the universities and the HEA in 2001.

9.7 The intent of the framework was:

- to enable universities to borrow but not create any contingent liabilities for the public purse;
- to ensure that the capacity of a university to function effectively is not endangered;
- to remove the need for approval in advance of borrowing provided that the borrowing was for short-term activities or, if long-term, for capital purposes only.

9.8 The framework includes certain criteria that determine the amount a university can borrow based on prevailing interest rates. The amount equates, in today's interest rate climate, to approximately €30 million per €100 million of income. Borrowings in excess of that amount, or for higher student capacity that increases the need for State funding, require prior HEA approval. This framework allows borrowing based on a ten year loan which the Institution can service both capital and interest, limited to no more than 4% of its annual income.

9.9 Borrowing for particular capital projects utilising Section 843 and Section 50 tax- facilitated financing structures (dealt with in Section 6) are specifically excluded from the framework. Most universities and other third level institutions have used the Section 50 structures to construct student residences and, to a lesser extent, have used the Section 843 structure.

9.10 To date, the amounts borrowed under the framework are low. The prime reason for this is the significant strain on university finances in recent years, leading to concerns that the universities would be unable to service any meaningful levels of debt.

9.11 However, since the introduction of the framework, there has been an increasing awareness that universities should utilise their borrowing capacity not only to finance specific capital projects but also as a long-term source of capital in a corporate sense - though whether this would be permitted under the existing framework is unclear.

9.12 In this context, it might be considered premature to discuss tax-exempt loans or bonds. However, given the emerging view that universities should maximise the utilisation of their borrowing capacity and that the reduction in recurrent university funding experienced a few years ago was a short-term phenomenon, it is appropriate to consider the use of such instruments.

Status of Bonds

9.13 Bonds issued by independent third level institutions here would not carry any Government guarantee and, even if carrying tax advantages (which could only be conferred by legislation), should not form part of or impact upon Government debt. The Department of Finance and the National Treasury Management Agency would, however, have to examine the financial and debt management implications. A number of tax-exempt bond schemes already exist here although not for comparable purposes with what applies in the USA e.g. the Section 69 securities for investment of surplus funds held here by multinational companies.

Recommendation

9.14 It is recommended that consideration be given by the HEA and the Departments of Finance and Education and Science to allowing third level institutions to issue tax-exempt bonds on a pilot basis, and within an overall ceiling, as part of the development of their borrowing capacity to meet part of their future investment funding requirements.

SECTION 10

VALUE ADDED TAX

Background

10.1 The general question of the impact of VAT on charities has already been raised by the Irish Universities Association and the Irish Charities Tax Reform Group.

10.2 The formal position is that charities are exempt from VAT. Thus, they do not charge VAT on the services they provide and, in turn, they cannot claim back the VAT that is included in the cost of the inputs which they purchase.

10.3 Under VAT law charities cannot be exempted altogether from VAT. The Minister for Finance has indicated, however, that under the EU law there is nothing to prevent charities being given a subsidy to "compensate" them for the irrecoverable VAT they had incurred provided EU State Aid rules are observed. However, he went on to point out that, in effect, that is already happening through the Government's support arrangements for charities.

10.4 VAT recovery arrangements are already operated in this country on a limited basis to allow refunds of VAT on certain aids and appliances for the disabled and on medical equipment donated to voluntary hospitals.

10.5 The Working Group considered this matter purely in the context of its relevance for efforts to promote a greater level of philanthropic giving to help finance the third level institutions.

Possible Help for Specific Projects

10.6 From the perspective of the third level institutions, VAT has an obvious cost which impacts on their cashflow and budgets. Viewed from the point of view of the philanthropic donor there is the perception also of some inequity, in that the expenditure of the donor's money on a desirable project will involve using part of it to pay VAT to the Exchequer.

10.7 Thus, when the Government and its agencies agree to fund a programme or building (assuming no payroll costs for the sake of illustration), to the tune of €121, the net cost to the Exchequer is €100 since €21 will be refunded to the Government through VAT.

10.8 When a third level institution seeks private support, and in principle, by doing so, relieves the funding burden on the State - the third level institution is in the position of offering relatively bad value for the private supporter as the net cost to the donor remains €121 (assuming the donor cannot claim tax back). For a donor to give €100 worth of value, the donor must pay €121 - unlike the Government. The VAT rate in respect of building works is 13.5%.

10.9 It can of course be countered that, to the extent that a donor has availed of the income tax deduction in respect of the donation, there is an offset against the VAT. But that line of argument would dilute in whole or in part the incentive motivation from the income tax deduction – in other words, implying that the income tax concession is just a recognition of VAT having to be borne

on expenditure from the donation. In the USA and Hong Kong as was indicated in Section 8, no connection is made between availability of the income tax deduction incentive and the operation of the matching funding schemes.

10.10 While the third level institutions are keen to increase funding from the private sector, it would be helpful if they were in a position to be able to confirm to the private sector that they are being treated in the same way as the State, in that every €1 they donate has equivalent leverage to €1 from the State. This would help to make philanthropic giving more attractive.

10.11 The VAT involved could be refunded to the third level institutions either by means of a VAT Recovery Order or through a dedicated Matching Fund (see Section 8) which could receive the equivalent amount to the VAT paid and disburse it back to the third level institutions to help finance specific types of projects that meet important national objectives.

10.12 The specific projects for which returned VAT could be used would be:

- specified projects i.e. projects of specific size that address key strategic objectives for the third level sector;
- where the VAT element was paid, and was funded in part or in whole by a philanthropic donation;
- the refund would not exceed the amount of VAT funded philanthropically.

Costs

10.13 The university sector is receiving, at a rough estimate, in the order of €50 million per annum in donations based on the figures in the Internal Department of Finance/Revenue review of the income tax donations scheme. Some of this would be allocated to projects that would not satisfy the condition of being a national priority, and even where it was, many gifts would typically be to support costs with no VAT associated (e.g. payroll costs, bursaries, prizes etc.)

10.14 It is important to note that a large proportion of donations received to date included funds from Atlantic Philantrophies. This source of funding no longer exists for the universities.

10.15 On this basis the overall cost to the Exchequer of a VAT refund scheme would not be very large. Details of the scheme would have to be elaborated.

Recommendation

10.16 It is recommended that in the case of highly desirable projects a sum equivalent to the VAT effectively paid by the donor be refunded by the Government on the foot of an appropriate arrangement for submission of claims by third level institutions.

APPENDICES

INDEX

APPENDIX 1 CORRESPONDENCE BETWEEN HIGHER EDUCATION AUTHORITY AND DEPARTMENT OF EDUCATION AND SCIENCE FOR BUDGET 2006 — 40

APPENDIX 2 DETAILS OF EXTERNAL DISCUSSIONS OF WORKING GROUP — 47

APPENDIX 3 STUDENT POPULATION PROJECTIONS — 48

APPENDIX 4 PROGRAMME FOR RESEARCH IN THIRD LEVEL INSTITUTIONS: CYLCE 1-3 BREAKDOWN OF FUNDING — 50

APPENDIX 5 DETAILS OF MATCHING FUNDING SCHEMES USA — 50

APPENDIX 1

CORRESPONDENCE BETWEEN HIGHER EDUCATION AUTHORITY AND DEPARTMENT OF EDUCATION AND SCIENCE.

Ms. Brigid McManus
Secretary General
Department of Education and Science
Marlborough Street
Dublin1

25 January 2006

Dear Brigid,

I refer to my letter of 15 November 2005 to the Minister, and subsequent contacts in the context of the Budget, about interim recommendations made by the Working Group set up by the HEA to examine ways of promoting the raising of more finance by the higher education institutions from private donations and other sources.

You will recall that one of the measures put forward by the HEA, based on the work of the Group, was that the scheme of tax relief on donations to approved bodies should be extended to include non-cash donations such as gifts of property and securities. The HEA very much welcomes, therefore, the measure in the 2006 Budget to broaden the scheme to include the donation of publicly quoted securities. While details of the measure are to be included in the forthcoming Finance Bill it is assumed that, as well as providing for deduction against income tax or corporation tax as the case may be, any necessary action will be taken to ensure that there is no disincentive to such donations on the Capital Gains Tax side.

As mentioned earlier, the recommendation made by the Working Group covered real property as well as shares. I understand that the Group had in mind in particular donations of land or buildings. Such donations could be of considerable benefit to the institutions, whether for direct use by them or to be used as assets. These types of assets qualify for the donations tax relief in the USA and UK.

Inquiries made by members of the Working Group during a recent visit to the USA indicate that non-cash items are in fact a significant element in donations. Donations overall amounted to $142 billion in 2002. Non-cash donations accounted for $34 billion or 25 per cent of the total. I should say that in the USA the eligible categories are very wide, covering such items as art, intellectual property, electrical goods and even cars and clothes. The land and buildings on its own, which is our primary interest at this stage, seems to cover about 16 per cent of non- cash donations. The Group is awaiting additional data but it is satisfied from its research to date that this could form a significant new element in donations to the Irish education sector if sufficient incentives are provided to potential donors.

Obviously, different valuation considerations arise in the case of land and buildings than for quoted securities and specific measures would be required to curb possible abuse. This seems to have been successfully addressed in the USA and we would be happy to share with your Department and the Department of Finance the information obtained in the USA in this regard.

In view of the opportunity arising in the current revision of the scheme I would ask that the Minister would raise with the Department of Finance, in the discussions on the Finance Bill, the desirability of extending the amendment to include donations of land and buildings as well as securities.

The decision announced in the Budget to terminate, subject to transitional measures for 'pipeline cases', the tax incentives for student accommodation and third-level education buildings is disappointing and we would certainly like to see it revisited. In the absence of the reports from the consultants which we have been awaiting, it is difficult to comment in detail beyond the views set out in my letter of 15 November to the Minister. That letter also set out our views on possible changes to the schemes to deal with abuses. In particular, so far as student accommodation is concerned, we would not agree with the consultants' assertion that the objectives of the scheme have been largely met. My letter of 18 November 2005 to you provided specific details of a number of developments that are still needed to meet ongoing and future demand.

Further corroboration is provided in the recently published report on the social and living conditions of Irish higher education students for 2003/04 which suggests that there is continuing strong demand for on campus student accommodation. The percentage breakdown for student accommodation is quite significant.

These are as follows:

Rented house/flat	39%
With Parents/Relatives	33%
Own household	17%
College residence on/off campus	7%
Lodgings/Digs	4%
Total	**100%**

These figures would appear to be at odds with the contention that demand for student accommodation has been met. They show a strong dependence on off campus private rented accommodation.

The projected growth in student numbers would put further pressure on the existing supply and the market could be squeezed further with the likelihood that current private off campus student accommodation developed under Section 50 will revert to private apartments once the tax relief period has expired.

All seven universities have been able to significantly improve their student housing stock through the use of the Section 50 provision. In some locations, the accommodation requirements have been fully met either by university owned on-campus developments or by adjacent privately owned schemes. Unfortunately, this is not always the case and certainly not in Dublin where land prices have mitigated against privately owned developments and the demand for residential places remains very strong. Continuation of the Section 50 provision, for on-campus projects, is a fundamental continuing support in allowing more on-campus accommodation to be built.

University residential developments must be self-financing. The financial models the universities use rely on older schemes financing newer schemes as the debt on the older schemes is retired. Financing and constructing facilities must be carried out over an extended period of time to avoid the risk of too high levels of debt. Section 50 should be seen in this light and not as a short-term tax incentive.

There have been a number of criticisms of Section 50 covering
Over expensive tax allowance;
Reversion to private rented accommodation after the ten year allowance period; and
Overdevelopment in some localities.

By limiting the allowance to university owned on-campus residences only and by extending the qualifying period to twenty years, these criticisms would be effectively addressed. The university shares the tax relief with the investor on a 50:50 basis with the cost of the relief to the State effectively reducing to 21%. On-campus developments will not be converted to private rentals nor is it likely that there will be over-development on university campuses.

While the major programme of investment announced in the Budget has given a tremendous boost to the sector you are well aware of the heavy demands that will arise for new facilities and refurbishment of existing infrastructure in the period ahead. Though there have been issues with Section 843, the scheme has significant merit. Perhaps a simplified form of Section 843 relief could be used whereby a donor would give a minimum of 25% of the cost while tax relief could be granted over a 7 year period to investors on the gross cost shared with the university.

Section 843 was only extended for university sporting and leisure facilities in Section 76 Finance Act 2001. It is these type of projects, which the universities must fund privately, that would benefit most from the scheme and more time is needed for the universities to utilise the scheme for these purposes. An extension of the scheme specifically for sporting, leisure and cultural projects would be very welcome. It may be that the scheme should be limited to these objectives only.

The HEA would be grateful, therefore, if the question of allowing further use of the Section 50 and Section 843 schemes could be looked at again, whether by widening the definition of "pipeline" cases or otherwise.

I will keep you informed on the work of the Group but I wanted to raise these issues now because of the forthcoming Finance Bill. I look forward to hearing from you.

Yours Sincerely

Michael Kelly
Chairman

Ms. Brigid McManus
Secretary General
Department of Education and Science
Marlborough Street
Dublin1

18 November 2005

Section 50 and Section 843

Dear Brigid,

I refer to our earlier conversation today.
We would make the following additional points in relation to the relevant sections.

Section 50 Student Accommodation

As outlined in our letter the student accommodation incentive has been highly successful.

However whilst some Institutions have fulfiled their current requirements a number of developments are still needed to meet ongoing and future demand.

As part of DIT's move to Grangegorman there will be a requirement to develop on campus student accommodation. Whilst we are not yet familiar with the requirements of the IOT sector we understand that there will also be needs in this area.

University of Limerick are presently developing 324 units but have a requirement to build a further 176 units.

University College Dublin are presently developing 500 units but have a requirement to build a further 2,500 units.

None of the foregoing planned developments will fall within the existing deadlines in the section.

It should also be borne in mind that a substantial amount of private off campus student accommodation will reach the end of its tax life in the coming years. It is highly unlikely that any of these developments will be retained for student accommodation purposes beyond the end of their tax life.

This could result in a significant reduction in available student accommodation on the market.

It is for this reason that I mentioned in my letter that we are considering putting forward an amendment under which any new accommodation provided under the incentive would have to be maintained in use for student accommodation for an extended period.

Some of the key student groups for whom on campus accommodation is required are primarily first year students and access students.

The normal financing structure being used by all the universities for on campus accommodation splits the tax relief 50/50 between the university and the private investor which effectively reduces the tax foregone from 42% to 21%.

The increasing student population including international students are likely to add to the pressures in future years.

Section S.843

Section 843 of the Taxes Consolidation Act 1997 (formerly Section 25 of the Finance Act, 1997) was introduced as a mechanism to promote partnership with the private sector and encourage capital investment in the area of third-level education.

In the case of the Programme for Research in Third Level Institutions (PRTLI), it was particularly important in leveraging private (non-repayable) donations amounting to €146.5m., representing 36% of the capital cost of the programme.

Institutions have also used the section for non-PRTLI projects.

DCU Library and Information Resource Centre/IT Building
RCSI Clinical Sciences Building
DCU Ryan Academy – City West
TCD North East Corner including Crann Research Building
UCC Indoor Sports Centre
UL Multi-Purpose Sports Building

Examples of future projects which could benefit from its retention are:

UCC IT Building
UL PESS Building

Whilst some of the developments funded might be regarded as non academic, sport facilities are hugely important as part of the whole Third Level experience.

This section is a significant incentive to encourage the private donors to put up matching funds for the provision of academic and related facilities on campus.

Donors are encouraged when their donations are matched by university or state funds. If there is no tax incentive then the burden will fall back fully on the university and the state.

To place in context, the recent Kelly Capital Review Report indicated a capital investment requirement of €900m approx for new developments over the next ten years for the third level sector as a whole.

Any mechanism such as section 843 which encourages the involvement of private sector investment should be welcomed by the Exchequer.

Yours sincerely

Michael Kelly
Chairman

Ms. Mary Hanafin T.D.
Minister for Education and Science
Department of Education and Science
Marlborough Street
Dublin1

15 November 2005

Dear Minister,

As one way of easing some of the pressure on public funding the Higher Education Authority has been examining ways to promote the raising of more finance by higher education institutions from private sources.

As you know, a number of Government initiatives to facilitate private funding are already in place. These include the project-based tax incentives for financing improvements and developments in third level infrastructure, and the tax relief for private charitable donations.

Given the sizeable additional financing needs for the period ahead, we have recently set up a Working Group with relevant expertise to establish what scope exists to promote more funding from private sources. In particular, we have asked the Group to examine whether the taxation and financial system can be used to provide additional funding

through incentives for private funding for project- or institution-based investment
through stronger incentives for philanthropic donations
through more general public offerings
through other means.

As part of its remit the Group has been asked to have regard to current practices in the education and other relevant sectors in Ireland as well as the most effective practices in comparable systems abroad.

The Group is expected to report with its recommendations early next year. However, especially in view of the current review of tax incentives by the Minister for Finance, I have asked the Group to give priority to any changes that could be effected in the Finance Act 2006.

The existing property-based tax incentives aimed at the third level sector have proved quite beneficial in helping to meet funding objectives. These incentives comprise the capital allowances scheme for construction of new buildings (Section 843 of the Taxes Consolidation Act) and the Section 23 - type relief for the provision of student rental accommodation (Section 50). Both of these come within the current review of property based tax incentives being carried out by the Department of Finance. The HEA has already conveyed its positive views on these incentives and supplied other information to the consultants who have been engaged in the review.

It is important to the future success of higher education that these project-based incentives be retained with any necessary modifications to ensure that their objectives are met. Indeed, initial discussions in the Working Group suggest that there is a good case for extending the scope of Section 843 to include the refurbishment works required in many of our third level institutions, as well as reducing the proportion of total expenditure which must have already been raised by the Institutions from 50 per cent to 25 per cent. Such a reduction would be helpful especially for refurbishment projects. It would also be helpful if the relevant Departments and Revenue were to issue clear guidelines on the operation of Section

843. This would give greater assurances to institutions wishing to put together funding mechanisms as well as help to guard against any abuses.

Similarly, the student accommodation incentive which has been highly successful, is needed to facilitate ongoing developments. It would be very detrimental if the section was not retained. The Working Group is considering putting forward an amendment designed to ensure that accommodation provided under the incentive is maintained in use for student accommodation for an extended period.

The new uniform scheme of income tax relief on donations, which was introduced in 2001 in Section 848A of the Taxes Consolidation Act, is proving to be of significant benefit to third level institutions. The Irish Universities Association has identified a number of possible amendments to the provision which might further improve its effectiveness. The Working Group will be looking at these in the context of the 2006 Finance Bill.

In the meantime, however, it is clear from the initial work of the Group that the main change that would be of assistance would be the inclusion in the donations scheme of non-cash gifts, such as gifts of property or shares. This would be more in line with the position in the United States, U.K. and Australia which have been successful in promoting transfers of wealth for charitable and educational purposes. The making available of an income tax incentive for such donations (in addition to the current capital gains tax exemption) would represent a major advance here in the arrangements to promote philanthropy. It could take the form of a deduction against income or a mechanism for discharging tax otherwise due. While there would be a cost to the State in terms of tax foregone, it would still be more cost effective than if the State had to meet the full cost by way of additional funding to the higher education institutions. The arrangements for valuation of the non-cash gifts, and the thresholds/ceilings to apply, would of course require careful consideration. Extension of the donations relief to cover non-cash gifts has already been raised by the Irish Charities Tax Reform Group as well as the Irish Universities Association and the HEA strongly favours such an initiative.

In view of the current Department of Finance review, which may possibly result in decisions being announced in the forthcoming Budget, the HEA is conscious that to have any impact, its views would need to be conveyed to the Minister for Finance at the earliest opportunity. Clearly the HEA's views would carry a lot more weight and significance if they were seen to have your support also. For these reasons, I am requesting that you might convey to the Minister for Finance the importance attached to maintaining and improving the current project-based tax incentives, and if you would raise with him the question of including non-cash gifts in the present donations scheme for purposes of third level education.

I will send a further letter to you when the wider work of the Group is more advanced. The HEA will also be happy to assist as requested in discussions on these matters for the forthcoming Budget or the 2006 Finance Bill.

Yours sincerely

Michael Kelly
Chairman

C.C. Ms Brigid McManus, *Secretary General*
Mr. Kevin McCarthy, *Ministerial Advisor*

APPENDIX 2

EXTERNAL MEETINGS - WORK PROGRAMME OF THE GROUP

The Chairman, Dermot Quigley and Stewart Roche visited Washington D.C. on Thursday 11th and Friday 12th January 2006 to research philanthropic giving in the United States to the third level sector.

They met Matt Hamill, Senior Vice President, Advocacy and Issue Analysis and Mary Bachinger, Director, Tax Policy of NACUBO, National Association of College and University Business Officers.

They had a meeting with John Lippincott, President and David Bass, Director of Government Relations of CASE, Council for the Advancement and Support of Education.

They also met the Internal Revenue Service and Treasury officials, including Susan Brown, Deputy Tax Legislative Council, Karen Skinder, office of Tax Exempt Bonds, Catherine Hughes, Charitable Remainder Trusts and other IRS and Treasury Experts.

Eamonn Ceannt and Stewart Roche met Stephen Large, Director of Finance, Kings College London and Tim Cobbett, Policy Advisor, Universities UK in London on Friday 21st April in London.

The purpose of the meeting was to review Philanthropic giving in the UK to the Third Level Sector and any tax based schemes to encourage donations.

Extensive Internet Research was undertaken on philanthropic giving and tax based schemes, in USA, UK, Australia, Canada and Hong Kong.

APPENDIX 3

STUDENT POPULATION PROJECTIONS

ADMISSIONS

Year	2003/04	2004/05	2005/06	2006/07	2007/08
Population Projection (18)	61,056	59,864	59,175	57,928	55,292
First Time Admission Rate	53.7%	55.1%	56.4%	57.8%	59.0%
First Time Admissions:					
Universities	15,151	15,229	15,426	15,474	15,064
IoTs	15,917	15,999	16,205	16,257	15,826
Other	1,731	1,740	1,762	1,768	1,721
Total First time entrants intake	32,799	32,968	33,393	33,499	32,611
Mature Students/Second Timers					
Universities	1,458	1,606	1,772	1,927	2,025
IoTs	2,649	2,917	3,219	3,501	3,678
Other	366	403	445	484	508
Total Second Time entrants	4,473	4,926	5,436	5,912	6,211
Total Intake (Full-Time)	**37,272**	**37,894**	**38,829**	**39,411**	**38,822**

STUDENT STOCKS

Year	2003/04	2004/05	2005/06	2006/07	2007/08
Universities					
First Timers	15,151	15,229	15,426	15,474	15,064
Second Timers	1,458	1,606	1,772	1,927	2,025
Total admissions	16,609	16,835	17,198	17,402	17,090
Multiplier*	4.232	4.252	4.272	4.292	4.312
Total Stock Universities	67,039	70,955	72,113	73,584	74,293
IoTs					
First Timers	15,917	15,999	16,205	16,257	15,826
Second Timers	2,649	2,917	3,219	3,501	3,678
Total admissions	18,566	18,916	19,425	19,757	19,504
Multiplier*	2.799	2.849	2.899	2.949	2.999
Total Stock IoTs	51,450	53,400	55,582	57,781	58,880
Other					
First Timers	1,731	1,740	1,762	1,768	1,721
Second Timers	366	403	445	484	508
Total admissions	2,097	2,143	2,207	2,251	2,229
Multiplier*	3.447	3.467	3.487	3.507	3.527
Total Stock Other	6,741	7,169	7,493	7,716	7,862
Total Stock (Full-Time)	**125,230**	**131,524**	**135,187**	**139,082**	**141,035**

* The multiplier is based on averaging the ratio between new entrants and total stock figures over a three year period. Increases to the multiplier of 0.02 per year are applied to the university and other sectors and 0.05 per year to the IoT sector.

2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
55,411	56,348	54,954	52,921	51,599	52,294	53,228	55,712
60.0%	61.0%	62.0%	63.1%	64.1%	65.1%	66.1%	67.0%
15,354	15,871	15,743	15,419	15,283	15,728	16,252	17,254
16,131	16,674	16,539	16,199	16,056	16,524	17,074	18,127
1,754	1,813	1,799	1,762	1,746	1,797	1,857	1,971
33,239	**34,358**	**34,080**	**33,380**	**33,085**	**34,049**	**35,182**	**37,352**
2,220	2,459	2,606	2,553	2,697	2,951	3,235	3,638
4,032	4,466	4,734	4,637	4,898	5,360	5,876	6,607
557	617	654	640	677	740	812	913
6,808	**7,542**	**7,994**	**7,830**	**8,271**	**9,051**	**9,923**	**11,157**
40,047	**41,900**	**42,074**	**41,210**	**41,356**	**43,100**	**45,105**	**48,510**

2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
15,354	15,871	15,743	15,419	15,283	15,728	16,252	17,254
2,220	2,459	2,606	2,553	2,697	2,951	3,235	3,638
17,574	18,330	18,349	17,972	17,980	18,679	19,487	20,892
4.332	4.352	4.372	4.392	4.412	4.432	4.452	4.472
75,181	**76,875**	**79,064**	**80,008**	**79,857**	**80,707**	**83,319**	**88,034**
16,131	16,674	16,539	16,199	16,056	16,524	17,074	18,127
4,032	4,466	4,734	4,637	4,898	5,360	5,876	6,607
20,162	21,140	21,273	20,836	20,954	21,883	22,950	24,733
3.049	3.099	3.149	3.199	3.249	3.299	3.349	3.399
60,479	**64,005**	**66,786**	**67,360**	**67,895**	**70,668**	**75,081**	**81,047**
1,754	1,813	1,799	1,762	1,746	1,797	1,857	1,971
557	617	654	640	677	740	812	913
2,311	2,430	2,453	2,402	2,423	2,537	2,668	2,884
3.547	3.567	3.587	3.607	3.627	3.647	3.667	3.687
8,029	**8,287**	**8,601**	**8,758**	**8,797**	**8,949**	**9,324**	**9,941**
143,689	**149,167**	**154,451**	**156,126**	**156,549**	**160,324**	**167,724**	**179,022**

APPENDIX 4

PROGRAMME FOR RESEARCH IN THIRD LEVEL INSTITUTIONS: CYCLES 1, 2 AND 3.

Cost

	Capital	Current	Total
Cycle 1	€000 €177,479	€000 €28,569	€000 €206,048
Cycle 2	€48,819	€29,663	€78,483
Cycle 3	€000 €176,371	€000 €143,601	€000 €319,972
Totals Cycle 1 - 3	**€000 €402,669**	**€000 €201,833**	**€000 €604,503**

APPENDIX 5

MATCHING FUNDING SCHEMES

1. USA

Background

Typically, government matching fund programmes are designed to operate for short periods of time, usually two to five years (although some are extended beyond their announced end date) and for specific purposes. Nearly all of the initiatives researched are guided by highly detailed regulation (usually developed in collaboration between presiding government agencies and higher education leaders). This specifies such programme features as institutional eligibility requirements, minimum and maximum levels, matching ratios, start and end dates, conditions for matching pledges of gifts (in addition to outright gifts), procedures for handling withdrawn pledges and contributions, periodic reporting, and an applications process, among other characteristics.

Private Funding			Direct Exchequer Funding		
Capital	**Current**	**Total**	**Capital**	**Current**	**Total**
€000 €88,739	€000 €9,524	€000 €98,263	€000 €88,739	€000 €19,046	€000 €107,785
€22,165	€6,799	€28,965	€26,652	€22,865	€49,518
€000 €35,553	€000 €22,982	€000 €58,535	€000 €140,818	€000 €120,619	€000 €261,437
€000 €146,457	**€000 €39,305**	**€000 €185,763**	**€000 €256,209**	**€000 €162,530**	**€000 €418,740**

Programmes offer matching ratios that range from a ratio of 0.5-to-1 (that is, one-half a unit of currency in government funds to 1 unit of currency in private funds). Further, the research indicates that government matching fund programmes do not replace other government-based support for post-secondary institutions. In addition, no evidence exists to suggest that government matching fund programmes are undermining the levels of overall public support of State-funded institutions.

According to a study by the Association of Governing Boards of Universities and Colleges (AGB), government matching fund programmes yield a substantial return on investment. From 1999 to 2002, for example, the government matching fund programmes which AGB studied helped to generate $363 million for higher education institutions, of which $276 million came from private donors and only $87 million from States, resulting in a return on investment of more than 317 per cent.

We have selected a number of States where the matching funds programme has been implemented.

Florida

In July 1985, the Florida legislature created the Trust Fund for University Major Gifts and the Eminent Scholars Chairs to support libraries, teaching, and research programmes. The initial effort matched individual gifts starting at a minimum of $600,000 in both programmes; that minimum now is in effect only for the Eminent Scholars Chairs program.

In February 2004, standards for the Trust Fund for University Major Gifts were revised as follows: gifts between $100,000 and $599,999 are matched at 50 percent; gifts from $600,000 to $1 million are matched at 70 percent; those from $1 million to $1.5 million are matched at 75 percent; those between $1.5 million

and $2 million are matched at 80 percent; and gifts greater than $2 million are matched at 100 percent.

IMPACT:

The University of Florida's fundraising campaign that ran from 1995 to 2000 (operated and managed through the University's foundation) raised more than $700.6 million. Of that total, State matching gifts amounted to $149 million. Currently, the University is conducting a fundraising effort with a goal of $150 million to enhance the classroom environment and support faculty members' research efforts. Private gifts in support of these efforts are eligible for State matching funds. In addition the University president has created a programme to match gifts of $1 million and greater with $250,000 from a University discretionary fund of private donations that are specifically targeted for faculty support.

Kentucky

The State's Council on Post-Secondary Education established two major matching fund programmes in 1997. The Research Challenge Trust Fund was created to provide matching funds at a ratio of 1-to-1 in support of research at the state's two largest public universities – the University of Kentucky, which receives two-thirds of the funds, and the University of Louisville, which receives the remaining one-third.

For fiscal year 2003-04, $100 million has been earmarked for these two universities. Also in 1997, legislators created the Regional University Excellence Trust Fund to provide support for the State's six smaller and regional universities to encourage them to develop "Programs of Distinction," which the State defines as a minimum of one academic programme or research initiative worthy of national distinction at each institution.

IMPACT:

The University of Kentucky launched its first comprehensive fundraising campaign in 2002 with an initial goal of $600 million, which it exceeded by $18 million after two years, prompting University officials to increase the goal to $1 billion (including state matched funds), which they hope to raise by 2007. University officials acknowledge the role of State matching gifts in surpassing their initial goal.

They add that the University's endowment will increase by nearly $267 million when all campaign pledges are realised, and as a result of the campaign, the University has gained more than 400 endowed professorships, fellowships, research initiatives, and library improvements, among many other programmes.

As a result of the Programs of Distinction component of the Regional University Excellence Trust Fund, Eastern Kentucky University has developed five new faculty positions in its College of Justice and Safety, and Kentucky State University conferred its first ever science-based graduate degree. In fiscal year 2002-03, all Programs of Distinction at the six participating universities were allocated more than $6 million; Eastern Kentucky University received more than $1.4 million and Kentucky State University received about $464,000.

Influence of Economic Situation

Beginning in the late 1990s and continuing to the present, many State economies in the United States have experienced diminished tax revenues. Consequently, some State legislatures were unable to sustain their matching gift programmes. (As of the end of 2003, Florida, for example, owed about $124 million to its 11 public colleges and universities in matching funds, according to the state Department of Education.

In a highly publicised case in the United States, a donor withdrew a $750,000 gift to Florida Atlantic University in protest. Similar issues have arisen in Louisiana).

To reflect current economic circumstances more accurately, some university officials now inform prospective donors that their private gifts might be matched with State funds. One approach for mitigating the potential negative impact of economic downturns on government matching gift programmes is for lawmakers to establish a specific timeframe for providing matching funds, coupled with the option of extending such timelines when possible and warranted.

Institutional capacity

A third factor in the success of these programmes is the ability of institution professionals – especially those responsible for fundraising – to manage and maximise such initiatives. In the United States, despite the high profile of fundraising in celebrated private institutions such as Harvard and Stanford Universities, many public colleges and universities are relative newcomers to fundraising, in part because such institutions once were highly dependent on State resources.

As those resources become increasingly scarce and as the number of students enrolled in those institutions climbs dramatically, public colleges and universities are under increasing pressure to raise private funds.

2. Hong Kong

Since 2002, the Hong Kong government has sought to diversify funding for higher education by strengthening fundraising capabilities of institutions, particularly because cutbacks to government funding of higher education were clearly in prospect and greater differentiation within the sector was envisaged. Seed money of up to HK$5 million (HK$10 approx to €1) for each of the eight institutions funded by the Hong Kong University Grants Committee was made available to build fundraising capacity.

Institutions applied for the funds according to their needs. Funds were consequently spent on staffing, training, consultancy, database development, and alumni relations programmes. In addition, the government raised the ceiling for tax-exempt donations from 10 percent of income or profits to 25 percent to encourage private donations to education and other charitable purposes.

Further, the government created a government fund of HK$1 billion for matching grants to universities on a ratio of 1-to-1. To date, this programme has run in two phases, from March 2003 to June 2004; a third phase is under consideration.

The University Grants Committee, which administered the process, reports that it did not find the programme complicated to manage. For both phase one and two, the scheme was cash-limited with a "floor," amounting to HK$45 million, as a guaranteed minimum that each institution could access by raising donations to that amount, and it had a "ceiling" of HK$250 million, the maximum any institution could attract on a first come, first served basis. The aim of the structure was to allow smaller institutions a fair chance while encouraging healthy competition among the institutions and raising the sights of what private philanthropy could achieve.

There were some limitations on what kinds of gifts were eligible for matching. Practices within each institution varied considerably, producing diverse approaches and to some extent reflecting their differing ages, traditions, reputations, missions, and alumni constituencies.

IMPACT:

By the end of the programme, the eight institutions raised a total of HK$1.3 billion, triggering the release of the entire HK$1 billion in the matched grants allocation from the government. Per institution, the donations raised amount to an average of HK$163 million in cash. All institutions except the Hong Kong Institute of Education achieved the floor level. Two – the University of Hong Kong and the Chinese University of Hong Kong – brought in donations higher than the ceiling level.

Half of the institutions received allocations of more than HK$100 million in matching grants. Some institution-specific measures of success include the following: Gifts to Hong Kong University increased by more than 50 per cent; Gifts to Hong Kong University of Science and Technology, which had been averaging HK$20 million a year, peaked at HK$140 million in this period; Hong Kong Institute of Education, a young university with an alumni population made up of modestly paid teachers, increased its fundraising total by 100 times over totals of 10 years previously, when it embarked on a development programme.

Polytechnic University successfully tapped in to industrial and corporate sources of support; City University achieved high levels of giving from faculty, Council and Court members, with the help of challenge grants from individual alumni that effectively turned each $1 donated from within the institution into $5; and Hong Kong Baptist University achieved the largest single donation, HK$100 million from an individual previously unknown to the University.

In general, the programme is also credited with generating a great deal of publicity and raising the profile of private giving to universities.

Donors liked the fact that their dollars had become more powerful, the institutions received donations for projects donors had not generally supported previously, and the institutions became more focused on and committed to fundraising activities. Professional staff gained skill and experience, connections with alumni were strengthened, and some vice-chancellors/presidents became more adroit and comfortable at leading fundraising.

Government Matching Fund Programmes in Hong Kong
Source: University Grants Committee

Institution	Eligible donations received, in millions*	Matching allocation, in millions*
City University of Hong Kong	57	45
Hong Kong Baptist University	186	79
Lingnan University	48	45
Chinese University of Hong Kong	273	228
Hong Kong Institute of Education	21	21
Hong Kong Polytechnic University	214	201
Hong Kong University of Science & Technology	140	131
Hong Kong University	381	250
Totals	**1,320**	**1,000**

*Hong Kong currency.

3. United Kingdom

The UK government introduced a matched funding scheme for pump priming fundraising in 2005. It is a pilot programme only. The purpose of the programme is to develop capacity in colleges where there is no history of fundraising.

Seventy eight bids were received from Colleges which was eventually reduced to 27 institutions. Any institutions which received STG £1.25million or more in philanthropic donations were excluded.

The total fund from the UK government was STG £7.5million over 3 years. The maximum grant allocated was STG£125K. At the end of the three years there will be a review of the effectiveness of the programme.

It is recognised that to have a successful fund-raising programme there is a need for professional staff. The market is very competitive and the institutions are chasing the same pot of money.

About 20 universities raise STG £1.25million + in donations, so therefore it is not a major factor in UK university income.

First allocations under the scheme were made in early 2006.

Detailed Criteria.

Institutions must be HE in England (Scotland, Wales, N Ireland not eligible)

Institutions must raise less than £1.25million PA (on 3 year rolling average) in cash from philanthropic sources to be eligible. Amount raised is determined by completion of Ross Group/CASE survey which sets out rules for counting. The term institution encompasses the central university and all federated bodies such as colleges. Survey must be completed as part of final application, not preliminary.

Funds are to be used to build development capacity of the institution. Definition of best capacity building can be determined by the institution.

Applications in two stages. Preliminary application which sets out basic purpose of funding and how it will build increased capacity and abilities. Once project is approved, the secondary application will ask for survey completion, documentation of support, budgets for both grant and matching, and other evidence of good practice.

Institution must demonstrate commitment at leadership level to development process, including time commitment.

Governing body of the institution must endorse role and function of development office.

Volunteer structure and membership should be included.

Funds must be matched 1:1 with new investment by institution. UK funds cannot be used to purchase hardware, food, consultants' time, or be used to launch a specific fund raising project.

Funds available in equal amount for 3 years; awards cover 3 years period. There will not be a subsequent round of applications in following years as of this writing. Ceiling of £125,000 per year (matched). Short annual report on activities and certification from finance office on expenditures required. Fuller report on success at end of the programme.

Institutions to describe current fund raising size, staff, practice, abilities, including provision for back office, data base maintenance.

Institutions to demonstrate use of good fund raising practice including use of gift agreements, documentation of gifts, systematic and auditable financial record keeping, ensuring endowed gifts are held in perpetuity for selected purpose and ensuring all gifts are used for purpose donor designated.

Institutions must commit to continue the new programme and expenditures at the end of the 3 year period.

The Government, Colleges and Universities see this as the first phase of the exercise. The second phase would be a possible extension of the programme and indeed increasing the allocation of STG£7.5million.

Although a long term objective, it is envisaged that there will be government funding for matching donations for specific capital projects.