

INNOVATION AND TECHNOLOGY FUND

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Memorandum Note

The Innovation and Technology Fund was established on 30 June 1999 by Resolution of the Legislative Council to finance projects to help promote innovation and technology upgrading in manufacturing and service industries. These efforts will contribute to increased productivity and enhanced competitiveness, and hence will be conducive to the long-term economic development of Hong Kong.

2 The Resolution provides, inter alia, that—

- (a) the Fund be administered by the Financial Secretary who may delegate his power of administration to other public officers;
- (b) there be credited to the Fund—
 - (i) such appropriations from the general revenue as may be approved by the Legislative Council for the purposes of the Fund;
 - (ii) all income received by way of interest, dividend or distribution in whatever form from—
 - (1) any loan, advance, investment or payment in whatever form made from the Fund in financing approved projects; and
 - (2) any investment made from the Fund;
 - (iii) all sums received by way of repayment of any loan or advance made from the Fund;
 - (iv) the proceeds of the sale of any investment made from the Fund; and
 - (v) such donations and other moneys as may be received for the purposes of the Fund;
- (c) the Financial Secretary may apply moneys from the Fund for the purpose of—
 - (i) financing projects that contribute to innovation and technology upgrading in the manufacturing and service industries; and
 - (ii) financing projects that contribute to the upgrading and development of the manufacturing and service industries,

in accordance with such terms and conditions as may be specified by the Finance Committee of the Legislative Council;

- (d) the Director of Accounting Services shall, under the authority of a funds warrant issued by the Financial Secretary, pay from the Fund such sums as may be required to meet expenditures from the Fund; and
- (e) the Financial Secretary in his discretion may authorise the investment in such manner as he may determine of any moneys held in the Fund at any time.

3 The Finance Committee approved on 9 July 1999 an appropriation of \$5 billion to the Fund. Since then, the following injections to the Fund have been approved—

- (a) \$5 billion on 27 February 2015;
- (b) \$2 billion as endowment capital to generate investment income to finance projects under the Midstream Research Programme for Universities (MRP) on 10 June 2016; and
- (c) \$2 billion for financing the Innovation and Technology Venture Fund (ITVF) on 12 July 2016.

4 Payments from the Fund for 2017–18 and 2018–19 are estimated at \$1,483,926,000 and \$2,085,236,000 respectively.

5 Provision of \$1,386,626,000 under *Subhead 101 Innovation and Technology (block vote)* for 2018–19 is to meet payments for existing projects and new projects that may be approved in the course of the year. Of this provision, \$289,394,000 is earmarked for projects to be undertaken by the Hong Kong Applied Science and Technology Research Institute Company Limited. Projects each costing over \$30 million will be subject to approval by the Finance Committee and any expenditure arising therefrom will be offset by deleting an equivalent amount under *Subhead 101*.

6 Provision of \$22,600,000 under *Subhead 090 Midstream Research Programme for Universities (block vote)* for 2018–19 is to meet payments for MRP existing projects and new projects that may be approved in the course of the year.

7 For the subheads created in 2005–06 for projects under the Government's new funding approach for innovation and technology development and the subhead created in 2016–17 for financing the ITVF, the following provisions are to meet payments for them in 2018–19:

- (a) \$74,400,000 under *Subhead 104 the Nano and Advanced Materials Institute*;
- (b) \$38,700,000 under *Subhead 105 the Hong Kong Research Institute of Textiles and Apparel*;
- (c) \$21,410,000 under *Subhead 106 the Automotive Parts and Accessory Systems Research and Development Centre*;
- (d) \$41,500,000 under *Subhead 107 the Research and Development Centre for Logistics and Supply Chain Management Enabling Technologies*; and
- (e) \$500 million under *Subhead 110 Innovation and Technology Venture Fund Corporation*.

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8 Receipts taking the form of investment income, net income from projects and refund of grants for 2017–18 and 2018–19 are estimated at \$268,668,000 and \$288,465,000 respectively.

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(Payments)

Sub-head (Code)	Approved commitment	Actual expenditure to 31.3.2017	Revised estimate 2017–18	Estimate 2018–19					
	\$'000	\$'000	\$'000	\$'000					
Head 111—Innovation and Technology									
090	Midstream Research Programme for Universities (block vote)	—	—	8,600	22,600				
101	Innovation and Technology (block vote)	—	—	1,322,114	1,386,626				
104	The Nano and Advanced Materials Institute.....	690,000	390,014	66,000	74,400				
105	The Hong Kong Research Institute of Textiles and Apparel	344,500	194,382	33,003	38,700				
106	The Automotive Parts and Accessory Systems Research and Development Centre	299,700	158,988	18,209	21,410				
107	The Research and Development Centre for Logistics and Supply Chain Management Enabling Technologies	362,400	212,950	36,000	41,500				
110	Innovation and Technology Venture Fund Corporation.....	2,000,000	—	—	500,000				
	<i>Head 111: total</i>	<u>3,696,600</u>	<u>956,334</u>	<u>1,483,926</u>	<u>2,085,236</u>				
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%;">Total (Payments).....</td> <td style="text-align: center;"><u>—</u></td> <td style="text-align: center;"><u>956,334</u></td> <td style="text-align: center;"><u>1,483,926</u></td> <td style="text-align: center;"><u>2,085,236</u></td> </tr> </table>					Total (Payments)	<u>—</u>	<u>956,334</u>	<u>1,483,926</u>	<u>2,085,236</u>
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INNOVATION AND TECHNOLOGY FUND
(Receipts)

	Actual receipts 2016–17	Revised estimate 2017–18	Estimate 2018–19
	\$'000	\$'000	\$'000
Investment income	154,974	218,224	284,000
Net income from projects	4,621	5,904	4,465
Refund of grants	47,588	44,540	—
Transfer from General Revenue	9,000,000@	—	—
Total (Receipts)	9,207,183	268,668	288,465

@ The Legislative Council's Finance Committee has approved the injection of \$5 billion into the Innovation and Technology Fund on 27 February 2015. Further injection of \$4 billion, \$2 billion each for financing projects under the Midstream Research Programme for Universities and the Innovation and Technology Venture Fund have been approved on 10 June 2016 and 12 July 2016 respectively. The actual transfer of \$9 billion in total into the Fund was effected in 2016–17.

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Movement of the Account

	Actual				Revised Estimate	Estimate
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	\$m	\$m	\$m	\$m	\$m	\$m
Opening Balance	2,379	1,812	987	42	7,991	6,776
Revenue	165	57	69	207	269	288
Expenditure	732	882	1,014	1,258	1,484	2,085
Surplus/(Deficit) before Transfer from GRA	(567)	(825)	(945)	(1,051)	(1,215)	(1,797)
Transfer from GRA	—	—	—	9,000	—	—
Surplus/(Deficit)	(567)	(825)	(945)	7,949	(1,215)	(1,797)
Closing Balance	1,812	987	42	7,991	6,776	4,979

Revenue Analysis

	Actual				Revised Estimate	Estimate
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	\$m	\$m	\$m	\$m	\$m	\$m
Investment Income	114	2*	3*	155	218	284
Net Income from Projects	8	18	12	5	6	4
Refund of Grants	43	37	54	47	45	—
Total Revenue	165	57	69	207	269	288

* This provision includes investment income from cash balances but excludes investment income placed with the Exchange Fund. The investment incomes placed with the Exchange Fund for 2014-15 and 2015-16, which stood at \$56,827,000 and \$39,558,000 respectively, along with the investment income on other parts of the fiscal reserves, have been set aside and retained within the Exchange Fund for the Housing Reserve.

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Expenditure Analysis

	Actual				Revised Estimate	Estimate
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	\$m	\$m	\$m	\$m	\$m	\$m
Payments	732	882	1,014	1,258	1,484	2,085
Total Expenditure	732	882	1,014	1,258	1,484	2,085

Estimated Outstanding Commitment of Innovation and Technology Fund

	Outstanding Commitment#
As at 31 March 2018	\$m 2,587

For Subheads 104 to 107 and 110 only.