

ITEM FOR FINANCE COMMITTEE

**HEAD 135 – GOVERNMENT SECRETARIAT :
INNOVATION AND TECHNOLOGY BUREAU
Subhead 700 General non-recurrent
New Item “Innovation and Technology Fund for Better Living”**

Members are invited to approve the creation of a new commitment of \$500 million for the establishment of the Innovation and Technology Fund for Better Living.

PROBLEM

We need to encourage different sectors of the society to make use of innovative ideas and technologies to develop products and services with innovation and technology (I&T) content, so as to improve the daily life of Hong Kong people and promote the use of I&T in the society.

PROPOSAL

2. The Secretary for Innovation and Technology proposes to create a new commitment of \$500 million for setting up the Innovation and Technology Fund for Better Living (FBL) to support I&T projects that aim to make the daily life of Hong Kong people more convenient, more comfortable and safer; or address the needs of specific groups.

/JUSTIFICATION

JUSTIFICATION

Growing Importance of Innovation and Technology

3. I&T has become an integral part of modern living. The Internet, mobile devices, e-commerce, and other I&T products and services, have in recent years not only driven economic growth, but have also changed our daily life substantially. Many companies have made use of technologies to turn innovative ideas into big businesses. I&T can also be used to improve people's daily life. The development of these I&T ideas into products/services requires resources, but entrepreneurs may be reluctant to provide them as some of these projects may not be considered as commercially viable. Other non-profit or charitable organisations may have implemented such projects in a limited scale, but are not able to implement them in larger scales due to lack of funding or other reasons.

Development of Innovative Ideas to Create Benefits

4. Owing to the above circumstances, some innovative ideas may not be transformed into products/services usable by the public at large, and the potential benefits to be brought about by these ideas could not be fully realised. We see a need to facilitate development of these ideas for benefitting the public and encouraging the development of I&T industries in the community.

Lack of Dedicated Funding for Non-profit I&T Projects

5. At present, the Innovation and Technology Fund (ITF) is one of the Government's principal funding vehicles for promoting I&T. However, funding schemes under the ITF are mainly targeted at research and development (R&D) projects or providing funding support for private companies, R&D Centres and/or universities to realise or commercialise their R&D results, although some of them may indirectly help enhance the quality of living in specific aspects. Besides the ITF, the Funding Scheme for Digital Inclusion Mobile Apps (FSDIMA) administered by the Office of the Government Chief Information Officer (OGCIO) since 2012 also provides funding support for the application of information and communications technology to address specific needs of under-privileged groups. Given the limited scope, we see a need to introduce a funding scheme which aims at promoting the wider application of I&T for the benefit of the general public.

/Establishment

Establishment of the FBL

6. In light of the above considerations, it was announced in the 2016 Policy Address that the Government would earmark \$500 million for setting up the FBL to finance I&T projects which aim at improving the quality of Hong Kong people's daily life. The operational framework and funding mechanism of the FBL are set out in the ensuing paragraphs.

Institutional Arrangement

7. The FBL will be fully owned and operated by the Government. The Innovation and Technology Bureau (ITB) will act as the Secretariat of the FBL (the Secretariat) to support the operation of the FBL. An Assessment Panel (AP), to be chaired by the Permanent Secretary for Innovation and Technology and comprising academia, professionals, representatives from the industry, dignitaries and representatives from relevant Government Bureaux/Departments, will be appointed to vet the applications according to a series of pre-determined criteria as set out in paragraph 12 below and recommend the level of grants for successful applicants.

Scope of Funding

8. Eligible projects should aim at improving people's daily life or benefiting specific groups, through the use of I&T. Deliverables of the projects can be in the form of mobile apps, specific products (such as device, equipment, tool, etc.), services, software or any other forms with valid justifications to the satisfaction of the AP. We will set themes for the FBL, such as health, transport, education, safety, specific needs, etc. to encourage the participation of different sectors in the community.

9. For the purpose of the FBL, eligible projects should seek to improve daily life by –

- (a) making life more convenient, e.g. workflow of a task is simplified, information is shared more efficiently or waiting time is reduced. Examples of possible projects include a mobile app that provides passengers with real-time update of traffic situation and suggests the most economical or efficient mode of transport, a device which enhances language learning experience, or an interactive system which provides essential information of different products in a retail outlet;

/(b)

- (b) making life healthier and more comfortable, e.g. hardship of performing a task or delivering a service is reduced, quality of life or healthiness is improved. Examples of possible projects include a facility that helps the recovery or reduces discomfort of patients, a mobile app which promotes healthier diet or provides information on different pharmaceutical products;
- (c) making life safer, e.g. risks in connection with performing of a task/activity or delivering/receiving a service is reduced. Possible projects include a management system which helps reduce the chance of accidents in construction sites or a device that helps enhance domestic safety;
- (d) improving the general well-being of specific groups (such as the elderly or groups with specific needs). Possible projects include a tool that provides voice route guide service to visually impaired people, an equipment that facilitates the movement of the disabled or a wearable device which helps track the location of Alzheimer patient; or
- (e) any other ways with valid justifications to the satisfaction of the AP.

10. Upon the establishment of the FBL, funding for the projects seeking to develop new mobile apps will be covered by the FBL for consolidation and efficiency purpose. We will terminate OGCIO's FSDIMA after the current round of funding applications¹ has been completed.

Eligibility of Applicants

11. The FBL will normally only accept applications from non-government organisations, non-profit organisations, professional bodies, trade associations and public bodies. Applications submitted by other parties may also be considered in warranted cases. In such cases, the applicant should provide satisfactory proof of its business nature and relevance to the purpose of the FBL. The AP will decide on the eligibility of such applicants having regard to all pertinent facts and circumstances.

/Eligible

¹ Since 2012, OGCIO has launched two rounds of funding applications under FSDIMA. A total of 12 mobile apps have been funded, benefiting the elderly, persons with disabilities, children with special education needs and ethnic minorities. In November 2015, OGCIO launched the third round of the funding scheme. Successful applicants will soon start the development of their mobile apps proposals.

Eligible Projects

12. Projects have to satisfy the following criteria –
- (a) the project should be able to benefit the public at large or specific groups (such as the elderly or disabled), and should be in line with government policies;
 - (b) the project should involve the adoption of I&T, and the application should include a concrete plan for development and implementation of the project;
 - (c) the applicant should demonstrate the ability to complete the development of the project within 12 months and run the project for at least two years normally after its roll-out;
 - (d) during the funding period, the project should not be profit-making and should not serve any profit-making purposes. Total funding received from FBL and other sources (such as funding from a parent organisation, sales proceeds or third party sponsorship as stated in the application form) must not exceed the total expenses for the development, implementation and running of the proposed project deliverable (eligible costs)². Such expenses must be directly related to the project, e.g. hiring of staff for the project, purchase of essential equipment and software, manufacturing, promotion and maintenance expenses, etc. Other expenses which are not directly relevant to the project, e.g. office overhead, entertainment, and travelling expenses, will not be funded; and
 - (e) the project should be carried out primarily within Hong Kong.

Assessment Process

13. The AP will meet on a regular basis to vet eligible applications according to a set of pre-determined criteria including benefits brought by the project; I&T content of the project; feasibility, sustainability and cost-effectiveness of the project; and the expertise, experience and ability of the applicant, etc. The relative weight of each factor and the marking scheme will be determined by the AP. During the vetting process, interviews with applicants would be arranged by the Secretariat as and when necessary.

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² The running cost of the project for the first two years after launching may be counted as eligible costs. A longer period may be considered by the Secretariat in warranted cases.

14. When vetting the applications, the AP will consider the proportion of costs for the development of I&T component, staff salaries, administrative support etc. While an organisation is allowed to submit more than one application, a mechanism will be put in place to avoid undue concentration of funding in a few organisations.

Form and Amount of Grant

15. A successful applicant will receive a grant equivalent to the difference between the eligible costs of the project and funding received from other sources (such as funding from a parent organisation, sales proceeds or third party sponsorship), subject to a cap of 90% of the eligible costs of the project or \$5 million, whichever is the less. The AP will also consider exceptional cases that may require special arrangement. In the agreement to be signed with the applicant, we will specify that the funding of the project under the FBL will not impose any recurrent financial obligations on the Government.

16. The applicant should state in the application form the amount of funding expected to receive from other sources (such as funding from a parent organisation, sales proceeds or third party sponsorship). If the applicant would like to receive extra sponsorship after the application has been approved, it should obtain prior written approval from the Secretariat before accepting the sponsorship. In such cases, the amount of grant may be adjusted so that the total amount of grant from the FBL and other sources of funding (including the extra sponsorship) will not exceed the total eligible costs. A mechanism will be put in place to recoup excess amount, if any, paid by the Government.

Intellectual Property Right

17. Any intellectual property right created in or via the projects will be vested with the grantees who should make it available for use in the public domain for free during the funding period. Such terms will be included in the agreement to be signed between the Government and the applicant.

/CONTROL

CONTROL AND REVIEW MECHANISM

18. As pointed out in paragraph 7 above, an AP will be appointed to assess and advise on the applications. All approved projects will be monitored by the Secretariat against the milestones stated in the applications. Successful applicants will be required to sign a funding agreement with the Government. Each approved grant will be disbursed by installments subject to the fulfillment of project milestones in the funding agreement. Upfront payment of up to 10% of the approved funding may also be considered in justified cases. Successful applicants have to keep a separate and proper set of books and records for the project. They will also be required to submit progress reports and financial reports against the milestones agreed in the funding agreement. They will also be required to submit audited statements upon completion of the project.

19. A mechanism will be put in place to suspend funding, cease a project or require the applicant to refund the amount granted in case of unsatisfactory project progress or contravention of funding guidelines.

20. We will evaluate the effectiveness of the FBL regularly. We plan to conduct a review of the FBL two years after its implementation to assess whether any refinement or adjustment to its mode of operation and other details is necessary. We will report progress to and consult the relevant LegCo Panel on proposed adjustments as appropriate.

EXPECTED BENEFITS

21. We expect that the FBL will bring about benefits in two aspects. On the one hand, the funded projects can help improve the daily life of the general public, or address the needs of specific groups (such as the elderly and the disabled). On the other hand, through encouraging the application of I&T to improve livelihood and address social issues, we can promote the adoption of I&T in different sectors and enhance the knowledge of I&T of the general public. These would in turn create a more active I&T atmosphere in the society, build up an I&T culture and strengthen Hong Kong's competitiveness in I&T.

FINANCIAL IMPLICATIONS

22. The proposed establishment of the FBL will require a non-recurrent allocation of \$500 million, which is expected to be sufficient to support the funding applications for five years starting from 2017-18. For budgetary purpose, the indicative annual cashflow requirement of the FBL is as follows –

/2017-18

2017-18 (\$'000)	2018-19 (\$'000)	2019-20 (\$'000)	2020-21 (\$'000)	2021-22 (\$'000)	Total (\$'000)
100,000	100,000	100,000	100,000	100,000	500,000

23. The actual cash flow will depend on the number of applications received and approved, as well as the amount of grant provided each year.

24. The time-limited recurrent expenditure of the FBL is around \$5.3 million per year, mainly to meet the staff cost of setting up the Secretariat³ to support the operation of the FBL and promotion expenses. The relevant provision has been included in the 2016-17 Estimates of ITB.

IMPLEMENTATION TIMETABLE

25. Subject to Members' approval, we will strive to launch the FBL in the second quarter of 2017.

PUBLIC CONSULTATION

26. We briefed the LegCo Panel on Information Technology and Broadcasting on the proposal to set up the FBL and its operational framework and funding mechanism on 13 June 2016. The Panel generally supported the proposal.

BACKGROUND

27. The ITB was established in November 2015 to promote the development of Hong Kong's I&T. The mission of ITB includes promoting R&D and realisation of R&D results, as well as the adoption of I&T to improve people's daily life and address social issues. In the 2016 Policy Address, the Chief Executive announced a number of initiatives to promote the development of I&T in Hong Kong, including setting up the FBL.

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³ The Secretariat comprises six time-limited non-directorate civil service posts.

28. One of the Government's principal funding vehicles for promoting I&T is the ITF. It was established in 1999 as a statutory fund to finance projects that contribute to I&T upgrading and development in manufacturing and services industries in Hong Kong with a view to enhancing Hong Kong's economic development. It mainly targets at funding R&D projects or providing funding support for private companies, R&D Centres and/or universities to realise or commercialise their R&D results. Large-scale production and distribution of R&D outcomes are not covered by projects funded by ITF. The Finance Committee approved in 1999 an appropriation of \$5 billion to ITF, a further injection of \$5 billion in 2015 and a recent injection of another \$2 billion as endowment capital to generate investment income to finance midstream research projects by universities funded by the University Grants Committee.

29. The proposed FBL, which aims at improving people's daily life or benefiting specific groups, through the application of I&T, will be a non-recurrent commitment item under the General Revenue Account.
