

Midstream Research Programme for
Universities

Funding and Administrative Guidelines for Successful Applicants

 **Innovation and
Technology Commission**

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The Government of the Hong Kong Special Administrative Region

(1) INTRODUCTION

- 1.1 This document sets out the general funding and administrative guidelines for research and development (R&D) projects funded under the Midstream Research Programme for Universities (MRP) of the Innovation and Technology Fund (ITF).

(2) PROJECT AGREEMENT AND PROJECT ACCOUNT

2.1 *Project Agreement*

- 2.1.1 After funding approval has been obtained from the Commissioner for Innovation and Technology (CIT), the lead applicant (and each co-applicant institution for collaboration project) should sign an agreement with the Government of the Hong Kong Special Administrative Region (“the Government”) before commencing the project.

2.2 *Legal Opinion On Co-Applicant(s) Outside Hong Kong*

- 2.2.1 If a co-applicant is incorporated, formed or established outside Hong Kong, a legal opinion in form and substance satisfactory to the Government and issued by a lawyer duly qualified to practise the law of the place of incorporation, formation or establishment (as the case may be) of the co-applicant and acceptable to the Government should be provided upon request by the Government on the issues set out in **Annex** and any other issues as may be required by the Government.

2.3 *Project Coordinator*

- 2.3.1 The project coordinator is responsible for overseeing the project generally; monitoring its expenditure and ensuring the proper usage of project funds in accordance with the approved budget and other guidelines and instructions set for the projects; liaising with and answering all enquiries/requests raised by the Innovation and Technology Commission (ITC) for information and clarification on all aspects of the project; and attending progress meetings on the project.
- 2.3.2 The project coordinator must have all outstanding reports and audited accounts of all other ITF R&D-related projects¹ under his/her purview submitted to ITC before the commencement of a new MRP project.

2.4 *Project Account and Interest*

- 2.4.1 The lead applicant, viz. universities funded by the University Grants Committee (UGC), should open a separate risk-free interest-bearing bank account (project bank account) with a licensed bank registered under the Banking Ordinance (Cap. 155)

¹ Including R&D projects under the Innovation and Technology Support Programme (ITSP), the Mainland-Hong Kong Joint Funding Scheme (MHKJFS), the Guangdong-Hong Kong Technology Cooperation Funding Scheme (TCFS), the University-Industry Collaboration Programme (UICP), the Partnership Research Programme (PRP), the MRP, and the Public Sector Trial Scheme (PSTS).

under its name specifically for processing all receipts and payments of all ITF projects, and assign a unique account code specifically for processing all receipts and payments of each project.

- 2.4.2 Unless otherwise specified in the project agreements, all interest income generated in the risk-free interest-bearing project bank account should be credited to the project account and returned to the Government upon completion of the project or termination of the project agreement.

2.5 ***Books and Records***

- 2.5.1 Accounting on an accrual basis should be adopted for all MRP projects. Unless otherwise approved by ITC, expenditure could only be charged to the project account after the equipment and goods have been received or services delivered. Sponsorship and all other income derived from the project during the project period, budgeted or not, should form part of the project income and should be used solely for the project until its completion. All the income and expenditure of a project must be received/accrued and expended (paid)/accrued respectively in accordance with the basis of each expenditure item in the approved budget.
- 2.5.2 The Director of Audit may carry out value for money studies on any organisation in receipt of ITF grants. ITC reserves the right to require the lead applicant and co-applicant(s), if any, to return any misspent amount together with interest income accrued to the Government.

2.6 ***Auditing Requirements***

- 2.6.1 The lead applicant is required to submit annual and/or final audited accounts to assure the Government that the project funds are applied to the project in accordance with the approved budget and in compliance with the terms and conditions for MRP projects. The annual and/or final audited accounts should be reported by independent auditors who must be Certified Public Accountants holding a practising certificate registered under the Professional Accountants Ordinance (Cap. 50) (the Auditors) and conducted in accordance with the latest version of the Notes for Auditors of Recipient Organisations (the Notes) issued by ITC.
- 2.6.2 The lead applicant should specify in the engagement letter for the employment of the Auditors that they should strictly follow the requirements and the specimen stipulated in the latest version of the Notes in conducting reasonable assurance engagements and preparing auditors' reports for annual and/or final account of the project. The engagement letter should also specify that CIT, the Director of Audit and his authorised representatives should have the right to communicate with the Auditors on matters concerning the annual and/or final accounts and the supporting statements.
- 2.6.3 The lead applicant and co-applicant(s), if any, are required to make available to the Auditors all information, documents and explanations relating to the project under their respective purview for the compilation of annual and/or final audited accounts of the project.

2.7 *Change Requests*

- 2.7.1 An approved project is required to be carried out strictly in accordance with the final proposal appended to the project agreement. Any modification, amendment or addition to the project or the agreement, including change of the project commencement or completion date², project coordinator or key equipment, scope, methodology, budget or cashflow projection, will require prior approval by ITC. The project coordinator should inform ITC well in advance by submitting a change request electronically through the Innovation and Technology Commission Funding Administrative System II (ITCFAS II).
- 2.7.2 Where the cumulative deviation of expenditure for a category does not exceed 30% of the original approved budget and does not result in any increase in the total approved project cost and the total amount of ITF grant requested, prior approval from ITC is not required. However, any virement as a result and the underlying reasons should be reported in the relevant annual progress report and/or final report. If the deviation exceeds 30% of the original approved budget, prior approval from ITC is required and such request should be made electronically through the ITCFAS II.
- 2.7.3 Notwithstanding clause 2.7.2 above, prior approval from ITC is required for any proposed increase of the expenditure of each co-applicant through virement of funds between/among co-applicants and/or from other categories.
- 2.7.4 As a general rule, transfer of budgeted expenditure for patent registration to other cost items is not allowed.

(3) **PROJECT EXPENDITURE**

3.1 *ITF Funding*

- 3.1.1 All project funds (including ITF grants, sponsorship and other income derived from the project during the project period) must be used exclusively for the project and incurred within the project period. It may be used for covering -
- (a) the costs of manpower employed specifically for carrying out the project;
 - (b) new equipment procured specifically for carrying out the project; and
 - (c) other direct costs which are specifically incurred for carrying out the project.
- 3.1.2 In general, up to 50% of the approved total project cost can be incurred in the Mainland. When certain R&D tasks need to be conducted outside Hong Kong (other than the Mainland), prior approval from ITC must be sought with justifications.

² The commencement and completion dates are specified in the project agreement.

Manpower

- 3.1.3 Project funding can generally be used to cover the salary of project staff, including employer's mandatory contribution to the Mandatory Provident Fund (MPF), contract gratuities, annual salary adjustment (excluding increments and promotions) and general fringe benefits (e.g. medical) in accordance with the established mechanism of the universities concerned.
- 3.1.4 Specifically, project funds cannot be used to cover allowances such as expenses on housing (including nominal rental for quarters), education, training, passage and travelling³, food, insurance, severance pay, overtime and untaken leave, etc.
- 3.1.5 As a general rule, the lead applicant and co-applicant(s), if any, must not charge the salary of their existing staff against the project unless this is a deployment absolutely necessary and essential for the project and ITC's prior approval has been obtained. This principle should apply irrespective of whether the relevant service/work is carried out within or outside normal working hours of the person concerned.

Equipment

- 3.1.6 Cost of new equipment for implementing the project can be charged to the project account. In general, hire-purchase of equipment is not allowed. If the new equipment is to be shared among different projects with its cost charged on a pro-rata basis under each project, the lead applicant and co-applicant(s), if any, are required to maintain a record on the usage of the equipment by the concerned projects for cost allocation purpose. Maintenance cost of the existing equipment can be charged against the project account on a pro-rata basis if a record on the usage of the equipment is properly maintained.
- 3.1.7 Specifically, project funds cannot be used to cover -
- (a) charges/time cost for use of existing equipment owned by the lead applicant and/or co-applicant(s), if any;
 - (b) depreciation/amortisation or provisions not representing actual expenses incurred; and
 - (c) general office and IT equipment.
- 3.1.8 Subject to ITC's prior approval and the following general principles, any piece of equipment for the project purchased using the project funds may be installed in the facilities of co-applicant(s) and/or supporting parties located outside Hong Kong -

³ Travelling if fully justified and at reasonable cost (e.g. economy class fare only if applicable) that are of direct relevance to the project can be included in the budget **subject to a cap of no more than 5% of the total amount of funds requested from the ITF**. These should be itemised and put under the category of "Other Direct Costs" in the budget of the application proposal for ITC's approval. Unless exceptionally justified, the number of participant per trip should be limited to no more than one person from the project team, members of which shall be from the lead applicant and/or the co-applicant(s) (if applicable).

- (a) the equipment remains under the ownership of the lead applicant for at least two additional years thereafter;
- (b) the equipment is installed in a university or a public research institute (not a private company); and
- (c) the cost of the equipment concerned should not account for a dominant part of the equipment budget (in general, the total cost of all equipment to be installed outside Hong Kong should be less than 25% of the total equipment budget, as a substantial part of the R&D activities is required to be conducted in Hong Kong).

3.1.9 Where necessary, ITC may require the lead applicant to transfer any equipment costing HK\$500,000 or above purchased under the project to the Government or another party within a period of two years after project completion.

3.1.10 As a general rule, the lead applicant is required to keep all equipment costing less than HK\$500,000 purchased for the project for at least two years after project completion or termination of the project agreement and should make such equipment available for ITC and the Director of Audit's inspection upon request.

Other Direct Costs

3.1.11 Project funds can be used to cover -

- (a) External consultancy, purchase of consumables and technology licences, as well as promotion and marketing activities for disseminating project deliverables and technology transfer.
- (b) Patent registration fee for functional inventions directly relating to the project may also be included in the budget. The above notwithstanding, the patent registration fee charged to the project account should not exceed HK\$250,000.
- (c) The maximum funding support allowed for an annual/final audited account of a project costing less than HK\$1 million, between HK\$1 million and HK\$5 million and more than HK\$5 million should not be more than HK\$8,000, HK\$14,000 and HK\$20,000 respectively.

3.1.12 As a general rule, services provided by the lead applicant/co-applicant(s), if any, (e.g. inter-departmental charges for universities) are not allowed to be charged to the ITF. ITC may however consider approving the charging of such services to the project account on the following basis -

- (a) prior application is made to ITC on grounds of operational efficiency, reliability and quality of services, etc.;
- (b) the services are not general or administrative support in nature, such as personnel, accounting, security, cleansing, library services, etc. as listed above. Examples of allowable services are printing and testing services. Other services should be considered on a case-by-case basis; and

- (c) the charges should only be at cost.

Co-applicant's Expenditure

- 3.1.13 For collaboration projects involving multiple disciplines or research institutes, expenditures directly related to the R&D work undertaken by co-applicant(s) are allowed as part of the project cost in the project budget.

Administrative Overheads

- 3.1.14 Administrative overheads up to 15% of the total amount of funds requested from the ITF (net of overheads) can be included in the project budget.

Unallowable Cost Items

- 3.1.15 Project funds cannot be used to cover -
- (a) building facilities (including office, laboratory, accommodation) - rates, rental, renovation, and operation, repair and maintenance expenses;
 - (b) costs of setting up office or forming association/consortium;
 - (c) utilities - charges for electricity, gas, water, telephone and fax;
 - (d) transport - shuttle bus services and home to workplace travelling expenses;
 - (e) general administration and office expenses;
 - (f) staff-related costs - provident fund handling charges, staff training and development costs and staff facilities;
 - (g) entertainment expenses, and any prizes, either in the form of cash or other types of souvenirs;
 - (h) advertisement (except for disseminating project deliverables, or staff recruitment);
 - (i) organisation of trade missions and participation fees at study/trade missions for individuals/companies;
 - (j) charges for non-R&D services (e.g. accounting, personnel, procurement, library, security, cleansing, legal, and central and departmental administrative support) provided by the lead applicant/co-applicant(s) or their contractors/agents;
 - (k) costs related to prior/subsequent year(s)/period(s) adjustment(s); and
 - (l) capital financing expenses, e.g. mortgage and interest on loans/overdrafts.

- 3.1.16 The list of unallowable cost items for manpower, equipment and other direct costs set out above is not exhaustive. The lead applicant should consult ITC if there is any doubt whether an item could be charged to a project account.

(4) PROJECT MONITORING AND DISBURSEMENT OF GRANTS

4.1 *Progress and Final Reports*

- 4.1.1 Upon project completion or termination of the project agreement, the lead applicant is required to submit annual progress report(s) and/or a final report **strictly** against the stated milestones for approval according to the reporting schedule as set out in the project agreement or any subsequent revised submission schedule(s) as prescribed by ITC. All reports should be prepared in the standard format and submitted through ITCFAS II. Upon ITC's request, the lead applicant is also required to provide timely clarification and/or supplementary information to substantiate the content of the reports. ITC may organise visits or progress review meetings to examine the progress of a project.

- 4.1.2 Any non-compliance of reporting requirements (e.g. delay in submission of report(s), report quality not to the satisfaction of ITC) may affect the lead applicant's future applications for funding support from ITC and may postpone the commencement of any new ITF R&D-related projects⁴ by the concerned project coordinator. If the lead applicant has encountered difficulties and an extension of the report submission is required, he or she should seek prior agreement from ITC.

4.2 *Project Steering Committee*

- 4.2.1 For collaboration projects, a steering committee shall be established to monitor the project progress, endorse annual progress report(s) and/or final report, and financial statements and audited accounts of the project before their submission to ITC. The committee should comprise representatives of the lead applicant and each of the co-applicant(s) and should meet at least once every six months. The lead applicant should submit to ITC annual progress report(s) and/or a final report on the project with endorsement of the steering committee.

4.3 *Disbursement of Grants*

- 4.3.1 Disbursement of grants to the lead applicant will be made by instalments, which will be contingent upon, among others -
- (a) production of receipt(s) or other record confirming payment of industry sponsorship and other sources of financial contribution to the project within the specified timeframe, if any; and

⁴ Including R&D projects under the ITSP, the MHKJFS, the TCFS, the UICP, the PRP, the MRP, and the PSTS.

- (b) satisfactory progress has been made in the previous reporting period, e.g. the project is able to meet the prescribed milestones and ITC is satisfied with the progress, etc.

4.4 ***Final Report***

- 4.4.1 Upon receipt of the final report, ITC will assess the effectiveness of the project by comparing the project results against its original objectives and targets (both technical and financial) as set out in the project proposal. Upon request, the lead applicant is required to provide timely clarification and/or additional information to substantiate the content of the final report, or be invited to present the project results.

4.5 ***Audited Accounts***

- 4.5.1 The lead applicant is required to submit to ITC annual and/or final audited accounts. The financial statements for annual progress report(s) and annual audited accounts of each project can be prepared on either *accrual* or *cash* accounting basis. However, the financial statements for the final report and the final audited accounts of each project have to be prepared on *accrual* basis.

- (a) Annual audited accounts made up to 31 March each year should be submitted on or before 30 June of that particular year. The first annual audited accounts may cover more than 12 months but not more than 18 months. The last annual audited accounts can be waived if it covers not more than 18 months.

- (b) Final audited accounts covering the period from project commencement date to project completion date or termination date of the project agreement should be submitted within three months from the acceptance date of the Final Report or termination date of the project agreement. (For details, please refer to the reporting and submission schedules as specified in the project agreement.)

- 4.5.2 If the lead applicant has encountered difficulties and an extension of the audited accounts submission is required, he or she should seek prior agreement from ITC. Upon ITC's request, the lead applicant is also required to provide timely clarification and/or supplementary information to substantiate the content of the audited accounts.

4.6 ***Suspension or Termination of Funding Support***

- 4.6.1 ITC may terminate a project or withhold the disbursement of ITF grants at any time for reasons which include, inter alia, overdue sponsorship, a lack of progress of the project against the agreed milestones, slim chance of completion of the project in accordance with the project proposal, the original objectives of the project being no longer relevant to the needs of the industry as a result of material change in the circumstances, the objectives and relevance of the project having been overtaken by events, or ITC seeing fit to terminate the project in public interest.

- 4.6.2 The financial position reported in each annual and/or final audited accounts should tie in with the technical progress/results of that reporting period(s)/year(s).

4.7 ***Return of Residual Funds and Interest***

- 4.7.1 Subject to the final audited accounts, the lead applicant should return to the Government all residual funds and interest remaining in the project account upon project completion or termination.

4.8 ***Post-Project Evaluation Report***

- 4.8.1 The lead applicant should submit a post-project evaluation report to ITC two years after project completion to indicate whether and how the project has led to further downstream R&D activities, which in turn may lead to the development of new products or services. The report should be prepared in the format specified by ITC and submitted through ITCFAS II. ITC will take into account the outcomes of the R&D work and the post-project evaluation in considering future applications from the same applicant or the same project coordinator. If considered necessary, the lead applicant should submit another post-project evaluation report to ITC five years after project completion.

(5) **PROCUREMENT AND RECRUITMENT**

5.1 ***Procurement Procedures***

- 5.1.1 The lead applicant and co-applicant(s), if any, should ensure that all procurements for goods and services are carried out in an open and fair manner and must comply with the procurement procedures as specified in the project agreement. Any exceptions will require the approval of ITC.

5.2 ***Hiring of Project Staff***

- 5.2.1 The lead applicant and co-applicant(s), if any, are required to abide by the principle of openness and competitiveness in hiring staff for the approved project.

(6) **DISSEMINATION OF R&D RESULTS**

6.1 ***Dissemination of R&D Results and Acknowledgement***

- 6.1.1 The lead applicant should try to publicise the project results or any events related to the project through publications, seminars, workshops, conferences and exhibitions etc., and make available the technologies or intellectual property to interested parties in an open, transparent and non-exclusive manner. Where appropriate, the lead applicant should also try to generate income during the project period by charging fees for project deliverables so as to recoup wholly or partly the cost of the deliverables. The lead applicant should provide ITC with information about the project (including project title, abstract, deliverables, implementation schedule,

requested ITF amount, key project staff, and the project results, etc.) as well as the project events, if any, so that ITC may publish it on the ITF website.

- 6.1.2 Acknowledgement of ITF support must appear on all equipment, facilities, publicity/media events related to MRP projects, as well as in publications arising from the project. The following disclaimer should also be included in any publications and media events related to MRP projects -

"Any opinions, findings, conclusions or recommendations expressed in this material/event (or by members of the project team) do not reflect the views of the Government of the Hong Kong Special Administrative Region, the Innovation and Technology Commission or the Innovation and Technology Fund Research Projects Assessment Panel."

Provision of Legal Opinion on Co-applicant Outside Hong Kong

If the Co-applicant is/are incorporated, formed or established outside Hong Kong, a legal opinion in form and substance satisfactory to the Government and issued by a lawyer duly qualified to practise the law of the place of incorporation, formation or establishment (as the case may be) of the Co-applicant and acceptable to the Government shall be provided upon request by the Government on the following issues and any other issues as may be required by the Government:

- (1) the Co-applicant is duly incorporated, formed or established and validly existing under the laws of the place of the Co-applicant's incorporation, formation or establishment and that the Co-applicant has full power, capacity and authority to carry on the business as it is now conducting and to perform its obligations on the terms and conditions of the Agreement;
- (2) the Co-applicant has the full power, authority and legal capacity to enter into and execute the Agreement and to incur the liabilities and perform the obligations thereunder;
- (3) the Agreement will constitute the legal, valid and binding obligations of the Co-applicant in the place of its incorporation, formation or establishment and is enforceable against the Co-applicant in accordance with its terms;
- (4) the execution, delivery and performance of the Agreement have been duly authorised by all necessary corporate action of the Co-applicant, and does not violate any provision of any applicable law, regulation or decree of the Co-applicant's place of incorporation, formation or establishment, or the Memorandum and Articles of Association or similar constitutional documents of the Co-applicant;
- (5) no authorisations, consents and approvals are required from any governmental authorities or agencies or other official bodies in the place of incorporation, formation or establishment of the Co-applicant in connection with the execution and delivery of the Agreement, or the performance by the Co-applicant of its obligations under the Agreement;
- (6) the Agreement needs not be registered or filed in the place of incorporation, formation or establishment of the Co-applicant in order to secure its validity;
- (7) there is no restriction under the laws of the place of the Co-applicant's incorporation, formation or establishment affecting the Co-applicant's obligations under the Agreement; and
- (8) the choice of the laws of Hong Kong to govern the Agreement is a valid choice of laws and would be recognised and given effect to by the courts of the place of incorporation, formation or establishment of the Co-applicant.