

Supplementary Note (for Universities) to Guide to the Innovation and Technology Fund - Innovation and Technology Support Programme (Tier 2 and Tier 3)

Introduction

1.1 In undertaking projects under Tier 2 and Tier 3 of the Innovation and Technology Support Programme (ITSP), universities shall comply with all the requirements and responsibilities as set out in the "Guide to the Innovation and Technology Fund (ITF) - Innovation and Technology Support Programme (Tier 2 and Tier 3)" (hereafter refer to as Guide), all the terms and conditions laid down in project agreements as well as all instructions and correspondences issued by the Commissioner for Innovation and Technology (CIT) in respect of each project, except for the following specific items which the universities shall follow the requirements as set out in paragraphs 2.1 to 7.1 of this supplementary note.

1.2 In addition, universities are allowed to charge administrative overheads to ITF projects. Details are set out in paragraphs 8.1 and 8.2 of this supplementary note.

Separate Account and Interest - Paragraph 4.2, Chapter IV of the Guide

2.1 Universities may be exempted from opening a separate risk-free interest-bearing bank account (project bank account) with a licensed bank registered under the Banking Ordinance (Cap.155) specifically for processing all receipts and payments of each project provided that:

- (a) all the project funds would **not** be put in any investment instrument other than risk-free interest-bearing bank accounts with a licensed bank registered under the Banking Ordinance (Cap.155); and
- (b) if project funds are placed together with other funds of the university, the interest income for each project shall be apportioned equitably from all ACTUAL monthly bank interest income generated from total bank deposits (fixed deposits and savings accounts only) for the month included in the university funds for all positive projects' fund balances from project commencement date up to the date of payment to the Government in accordance with the following formula:

$$\frac{\text{Average positive ledger balance (i.e. the simple average of the opening and closing balances) of each project for the month, adjusted for disallowed expenses, unrecorded income, if any, and accrued interest (Note 1\&2)}}{\text{Average bank balance (extracted from bank statements/bank passbooks) for the month of university funds placed in bank deposits (fixed deposits and savings accounts only) (Note 2)}} \times \frac{\text{Total actual monthly interest income generated from total bank deposits (fixed deposits and savings accounts only) for the month included in the university funds}}{\text{Total actual monthly interest income generated from total bank deposits (fixed deposits and savings accounts only) for the month included in the university funds}}$$

Important Notes:

- (1) Negative interest is **not** allowed to be charged on any negative projects' fund balances.
- (2) As the amount of unpresented cheques would have been transferred to the current account, therefore the effect of the unpresented cheques is contras with the current account. In turn, a proportionate share of the average bank balance of the university fund placed in the working capital (cash and current accounts) for the month is not provided for in the denominator. It is based on the assumption that all projects' funds balances are placed in bank deposits (fixed deposits and savings accounts only).

Reporting Requirements - Paragraph 4.4, Chapter IV of the Guide

- 3.1 Universities can prepare financial statements for progress reports and annual audited accounts of each project on *cash* basis. However, the financial statements for the final report and the final audited accounts of each project have to be prepared on *accrual* basis.
- 3.2 The administrative overheads thus calculated (refer to paragraphs 8.1 and 8.2 below) should be included as receivable and payable in the financial statements for the final report and the final audited accounts of each project.

Change Requests - Paragraph 5.1, Chapter V of the Guide

- 4.1 For universities, an accumulative 30% virement into/out of the categories of manpower, equipment and other direct costs of ORIGINALLY approved project budget would not require prior approval of the CIT. The virements made, and the underlying reasons however, have to be reported in relevant progress reports to the Innovation and Technology Commission (ITC). Any single additional deviation exceeding 30% of the ORIGINALLY approved project budget would require prior written approval from CIT.
- 4.2 The virements made would be governed by the following basic rules:-
 - (a) changes have to be made within the overall approved project budget (excluding interest income);
 - (b) virements have to be made within the same budget category first;

- (c) no additional grant from ITF is required;
- (d) changes do not involve any unallowable cost items as defined in the Guide;
- (e) all costs incurred for a project are used exclusively for that project;
- (f) any virements made, and the underlying reasons, are reported in the relevant progress reports and the final report of the project;
- (g) if necessary, the ITC or the Assessment Panel would also examine the details contained in the progress/final reports through project visits or inspection;
- (h) ITC reserves the right to require universities to return the mis-spent amount together with interest income accrued to the Government, including mis-spent amount on items which do not require prior approval and reported in the progress/final reports; and
- (i) the CIT is the final authority. If there are very major irregularities involved, ITC may terminate the funding support to the project in question.

4.3 The detailed operation is set out below.

Manpower

4.3.1 On manpower -

- (a) any change in key project staff would still require prior approval because of the need to ascertain that the changes would not affect the technical capability of the project

team. The list of key project staff would need to be agreed with the ITC before the project is approved;

- (b) inclusion of any new item(s) exceeding HK\$500,000 (cumulative) would require prior approval of the ITC; and
- (c) budgetary changes exceeding HK\$500,000 (cumulative) to any manpower item(s) - new or existing, would require prior approval.

Equipment

4.3.2 On equipment -

- (a) any change in key equipment would still require prior approval because of the need to ascertain that the changes would not affect the conduct of the project. The list of key equipment would need to be agreed with the ITC before the project is approved. A piece of equipment costing more than HK\$500,000 would automatically be counted as key equipment;
- (b) inclusion of any new item(s) exceeding HK\$500,000 (cumulative) would require prior approval of the ITC; and
- (c) budgetary changes exceeding HK\$500,000 (cumulative) to any equipment item(s) - new or existing, would require prior approval.

4.3.3 Any new items under the equipment category have to be R&D equipment purchased exclusively for use by the project (a small portion of time nevertheless can be used for educational/training purposes). Non-specific equipment item, such as miscellaneous equipment, would **not** be allowed for inclusion in the budget.

Other Direct Costs

4.3.4 On other direct costs -

- (a) inclusion of any new item(s) exceeding HK\$100,000 (cumulative) would require prior approval of the ITC; and
- (b) budgetary changes exceeding HK\$100,000 (cumulative) to any item(s) - new or existing, would require prior approval of the ITC.

4.3.5 Items under this budgetary category need to be specific, e.g. chemical reagents for a certain experiment. Non-specific item, such as miscellaneous item, would **not** be allowed for inclusion in the budget.

4.3.6 Consultancy should be classified as an item under this budgetary category.

Manpower - Paragraph. 5.2.3, Chapter V of the Guide

5.1 The manpower cost of university staff at research assistant or equivalent rank may be charged to the project in accordance with his/her involvement on a full-time or part-time basis as appropriate provided that a monthly time-sharing record devoted by the staff to the project is maintained.

Procurement Procedures - Paragraph 7.1, Chapter VII of the Guide

6.1 Universities may choose to comply with their established/current standard procurement procedures.

Title to Equipment - Paragraph 7.3, Chapter VII of the Guide

7.1 The title to equipment whose unit price exceeds HK\$500,000 shall be passed to the university but the Government reserves the right to require the university to release and make available for removal by the Government within two years from completion of the project or termination of the project agreement.

Administrative Overheads

8.1 Universities are allowed to include administrative overheads as part of the project cost in the project budget. The administrative overheads to be included in the project budget can be at most 15% of the ITF fund requested (net of overhead) and, for the Collaborating Research Scheme under Tier 2, consist of another portion of not less than 15% of the total contribution (including both cash and in-kind contribution) from the participating company. Such administrative overheads would cover expense items including, but not limiting to, the following:

- (a) rental/time cost of existing equipment.
- (b) maintenance cost of existing equipment.
- (c) depreciation/amortisation or provisions not representing actual expenses incurred.
- (d) general office and IT equipment.
- (e) building facilities (including office, laboratory, accommodation) - rates, rental, renovation, and operation, repair and maintenance expenses.

- (f) utilities - charges for electricity, gas, water, telephone and fax.
- (g) general administration and office expenses.
- (h) staff-related costs - provident fund handling charges, staff training and development costs and staff facilities.
- (i) costs related to staff recruitment.
- (j) charges for services provided by the recipient organisation or their contractors/agents - accounting services, personnel services, procurement services, library services, security services, cleansing services, legal services, and central and departmental administrative services.

The ITF funding for the administrative overheads would be disbursed to the university upon request, and after receipt of final audited accounts. Subject to the ceiling of ITF funding approved for a project, the Government's share of the administrative overheads would be capped at 15% of the ITF funding utilised for the project, i.e. total disbursed ITF funding less the residual funds remaining in the project account (excluding interest income). For Collaborating Research Scheme under Tier 2, the residual funds above should refer to the Government's share calculated in proportion to the percentage specified in the project agreement.

8.2 As the administrative overheads would have covered the relevant expenses as listed above, such expenses should **not** be separately included and charged in the project budget and/or account.

Innovation and Technology Commission
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