

PROJECT AND FUNDING GUIDE

Guidance Note (C) on Procurement, Change Requests, Allowable and Unallowable Costs

This Guidance Note covers Section 4 (Procurement Procedures) and Section 5 (Change requests, Allowable and Unallowable Costs).

Section 4 PROCUREMENT PROCEDURES

4.1 Procurement

4.1.1 The recipient organization should ensure that all procurements for goods and services are carried out in an unbiased and fair manner. It must comply with the following procedures, unless otherwise approved by HKJCICM -

- (a) for every procurement the aggregate value of which is more than HK\$5,000 but less than HK\$10,000, written quotations from at least two suppliers or service providers should be obtained. The recipient organization should select the supplier or service provider that has submitted the lowest bid, unless otherwise agreed by HKJCICM. If the lowest bid is not selected, full justifications must be given;
- (b) for every procurement the aggregate value of which is HK\$10,000 or more, but less than HK\$500,000, written quotations from at least three suppliers or service providers should be obtained. The recipient organization should select the supplier or service provider that has submitted the lowest bid, unless otherwise agreed by HKJCICM. If the lowest bid is not selected, full justifications must be given; and
- (c) for every procurement the aggregate value of which is HK\$500,000 or more, open tendering should be used.

4.1.2 In case the recipient organization intends to procure professional services and contractual research and development work from another company/organization/individual, it has to provide contractual details, justifications and its relationship with the company/organization/ individual in the project proposal for not following the open procurement process set out at paragraph 4.1.1 above for the approval of HKJCICM.

4.1.3 All quotations and tendering documents should be kept by the recipient organization for HKJCICM and its nominees' inspection for at least two years after completion of the project or termination of the project agreement, or as otherwise specified by HKJCICM within that two-year period.

4.2 ***Hiring of Project Staff***

4.2.1 The recipient organization is required to abide by the principle of openness and competitiveness in hiring staff for the approved project.

4.3 ***Title to Equipment***

4.3.1 The title to equipment shall vest in and remain with HKJCICM. Upon completion of the project or termination of the project agreement, HKJCICM reserves the right to remove such equipment. The recipient organization is required to make available for removal such equipment in which HKJCICM retains title, upon HKJCICM's request.

4.3.2 The recipient organization will have the right to use the equipment whenever the latter is physically with them. The risk in the equipment (e.g. loss, damages, liabilities, etc.) will vest and remain with the recipient organization upon procurement of the equipment to the point they are physically removed from the recipient organisation.

Section 5 CHANGE REQUESTS, ALLOWABLE AND UNALLOWABLE COSTS

5.1 ***Change Requests***

5.1.1 An approved project is required to be carried out strictly in accordance with its 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 dates, key project staff (including project coordinator, project investigator, study director etc.), scope, R&D directions, budget (other than circumstances set out in paragraph 5.1.2 below) or cashflow projection, will require prior specific written approval by HKJCICM. 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 project budget, this Guides and other instructions set for the project; liaising with and answering all enquiries/requests raised by HKJCICM; and attending progress meetings on the project.

5.1.2 No justifications and change requests are required for any spending within 10% margin of the original budget under the categories of manpower, equipment and other direct costs, providing that the overall spending falls within the approved total budget. Notwithstanding this, prior written approval is required to be sought from HKJCICM if budgeted expenditure is to be transferred to any unbudgeted expenditure item. The final decision on whether certain items of income and/or expenditure should be/can be included/charged to a project should vest with HKJCICM.

5.2 ***Allowable and Unallowable Costs***

General

5.2.1 All project funds are for the sole purpose of carrying out the project. Project funds may be used for covering -

- (a) the costs of manpower specifically employed for carrying out the project;
- (b) new equipment procured specifically for carrying out the project; and
- (c) other costs which are specifically incurred for carrying out the project

5.2.2 All expenditure to be covered by the project funds must be exclusively used for the project and incurred within the project period, unless otherwise agreed by HKJCICM. When preparing the project budget contained in the application proposal, all expenditure items have to be grouped under the categories of manpower, equipment and other direct costs. Unspecified cost items such as miscellaneous, sundry and contingency etc, will not be accepted by HKJCICM and should not be included in the budget.

5.2.3 The following fees are allowed within the budget. Such expenditure items have to be grouped under the category of other direct costs which include the legal fees for preparation of the project agreement and external audit fees for the preparation of annual/final audited accounts.

Manpower

5.2.4 Unless otherwise agreed, HKJCICM will not pay any emolument to a person who is already on the payroll of the Government or a Government subvented body/institution. This principle should apply irrespective of whether the relevant service/work is carried out within or outside normal working hours of the person concerned.

- 5.2.5 Subject to paragraph 5.2.4 above, project co-ordinator, principal investigator(s) and project team members may charge their efforts to the project on a full-time basis or a pro-rata/hourly basis provided that a monthly time sharing record of their working time devoted to the project is maintained.
- 5.2.6 Notwithstanding paragraph 5.2.5, the recipient organization must not charge the salary of its existing staff against the project unless this is a deployment absolutely necessary and essential for the project and prior approval from HKJCICM has been obtained.
- 5.2.7 Hire of consultants or subcontractors must be justifiable. Draft agreement / contract, listing out the purpose, specific tasks, milestones and payment structure should be submitted in the project application.
- 5.2.8 Specifically, project manpower costs cannot be used to cover the following expenditure items:
- (a) annual salary increment, except cost of living adjustment at a rate to be agreed with HKJCICM;
 - (b) fringe benefits and allowances other than employer's contribution to the Mandatory Provident Fund. Such fringe benefits and allowances include expenses on housing (include nominal rental for quarters), education, training, passage and travelling², food, medical, dental, insurance, severance pay, overtime and untaken leave, etc.
- 5.2.9 The recipient organization is required to abide by the principle of openness and competitiveness in hiring staff with the right competencies and experience for the approved project.

Equipment

- 5.2.10 Cost of new equipment, if justified and approved, for implementing the project can be charged to the project account. If the new equipment is to be shared among different projects with its cost charged on a pro-rata basis under each project, the recipient organization is required to maintain a record on the usage of the equipment by the concerned projects for cost allocation purpose. Please specify in detail in the application and project budget if such incident will happen.

² Passages and travelling are normally not allowed unless otherwise specified and justified. These should be itemised and put under the category of "Other Direct Costs" in the budget of the application proposal for HKJCICM's approval. Such expenditure must be economical and based on the principle of the best available alternative.

5.2.11 Recipient organizations are encouraged to share the use of existing equipment within their organizations or from other organizations. Maintenance cost of the existing equipment can be charged against the project account on a pro-rata basis if the recipient organization and/or the subcontractors maintain a record on the usage of the equipment. For the sake of clarity, such maintenance/rental cost (if any) should be placed under “Other Direct Costs”. Specifically, project funds cannot be used to cover –

- (a) rental/time cost of existing equipment owned by the recipient organization; and
- (b) depreciation/amortization or provisions not representing actual expenses incurred.

5.2.12 For general office and IT equipment specifically required for the project, prior approval at the funding approval stage is required, otherwise the costs of such items cannot be charged to the project account.

Other Direct Costs

5.2.13 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.
- (c) utilities - charges for electricity, gas, water, telephone, fax.
- (d) transport - shuttle bus services, home to workplace travelling expenses.
- (e) general administration and office expenses.
- (f) staff-related costs - provident fund handling charges, staff training and development costs, 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 recruitment of staff listed in the approved budget or subsequently approved by HKJCICM).

- (i) organization of trade missions, participation fees at local or overseas conferences and study/trade missions for individuals/ companies
- (j) charges for services provided by the recipient organization or their contractors/agents - accounting services, personnel services, procurement services, library services, security services, cleansing services, legal services, and central and departmental administrative services.
- (k) costs related to prior/subsequent year(s)/ period(s) adjustment(s).
- (l) capital financing expenses, e.g. mortgage and interest on loans/ overdrafts.

5.2.14 The above list is not exhaustive. Recipient organizations should consult HKJCICM if they have any doubts about whether an item could be charged to a project account.