

Areas of Excellence (AoE) Scheme and Theme-based Research Scheme (TRS)

Supplementary Monitoring Guidelines to Universities and Project Teams on Funded Projects

According to the “Disbursement, Accounting and Monitoring Arrangements for Funding Schemes Administered by the Research Grants Council” (DAMA), a university is required to return to the RGC all interest income generated from the prepaid grants funded by the Research Endowment Fund (REF) on an annual basis. The AoE Scheme is not on the list of grants¹ funded by the REF in DAMA. Since its implementation in 1998, it has been funded by the General Revenue Account (GRA) and has been governed by a separate monitoring guideline.

2. Starting from the 2022/23 exercise, the AoE Scheme was repositioned to primarily fund major projects outside the four themes and grand challenge topics of the TRS, including but not limited to inter-disciplinary projects involving collaboration with / among humanities and social sciences disciplines. Additional budget has been deployed from the REF to support the repositioning and synchronisation of the two schemes, as well as exploratory projects.

3. The RGC has recently reviewed the accounting arrangement for the AoE grants. To align with the practices of other grants funded by the REF, in respect of AoE grants (regardless of the year of award) scheduled for disbursement from 15 March 2024 onwards, universities should comply with the requirements as set out in the ensuing paragraphs.

4. Universities are required to open a **separate** interest-bearing bank account with a licensed bank registered under the Banking Ordinance (Cap. 155) solely for depositing receipts and making payments in relation to the AoE grants. All interest income generated in the said bank account should be kept in the account and returned to the UGC / RGC as appropriate on an annual basis together with supporting documents such as bank statements before the end of January each year (i.e. interest received from January to December should be returned in January of the following year). A separate ledger designated for the sole purpose of keeping and transacting all monies of the AoE grants should be maintained. Bank reconciliation should be prepared promptly and regularly, at least once a month, of the balance as shown in the ledger. Universities should also draw up proper instructions and guidelines regarding the conduct of business through the said bank account.

5. Notwithstanding paragraph 4 above, universities may be exempted from opening a **separate** interest-bearing bank account provided that:

¹ TRS has all along been funded by the REF and thus is bound by the accounting requirements stated in paragraphs 4 and 5 of DAMA.

- (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 the project funds are placed together with other funds of the university, the interest income for the project funds should be apportioned equitably from all ACTUAL monthly bank interest income generated from the total bank deposits, from the date of receipt of the project funds up to the date of returning the unspent balance to the Government, in accordance with the following formula:

<p>Average positive ledger balance (i.e. the simple average of the opening and closing balances) of all relevant projects for the month, adjusted for disallowed expenses, unrecorded income, if any, and accrued interest [Notes (1)&(2)]</p> <hr style="width: 100%;"/> <p>Average bank balance (extracted from bank statements / bank passbooks) for the month of university's funds placed in bank deposits [Note (2)]</p>	X	<p>Total actual monthly interest income generated from total bank deposits for the month included in the university's funds</p>
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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, the effect of the unpresented cheques is contra with the current account. In other words, a proportionate share of the average bank balance of the university's fund placed in the working capital (cash and current accounts) for the month is not provided for in the denominator. The calculation assumes that all projects' fund balances are placed in bank deposits (i.e. fixed deposits and savings accounts only).

6. As the AoE Scheme receives funding from both the GRA and REF, an AoE project may be partially funded by GRA and partially by REF over the course of the five-year project period. For accounting purposes, it is necessary to record the interest income generated from the AoE grants under GRA and REF separately. In addition to the requirements mentioned in paragraphs 4 and 5 above, universities are required to maintain separate ledgers for interest income generated from the AoE grants under GRA and REF. When returning the interest income to the UGC / RGC on an annual basis, universities must provide a breakdown of interest by GRA and REF, as well as bank reconciliations by month. Universities will be notified of the funding source (either GRA or REF) of the AoE grants in the letters announcing the release of next stage funding.

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