

ITEM FOR FINANCE COMMITTEE

LOAN FUND

HEAD 268 - FIRE SAFETY

Subhead 101 Fire Safety Improvement Loan Scheme

HEAD 269 - BUILDING SAFETY

Subhead 101 Building Safety Improvement Loan Scheme

Members are invited to approve -

- (a) the merger of the Fire Safety Improvement Loan Scheme under Head 268 and the Building Safety Improvement Loan Scheme under Head 269 into a new loan scheme called “Comprehensive Building Safety Improvement Loan Scheme” under Head 269 Building Safety of the Loan Fund with a commitment of \$700 million to provide loans to building owners who need financial assistance to improve the safety of their premises; and
- (b) renaming Head 269 Building Safety Subhead 101 as “Comprehensive Building Safety Improvement Loan Scheme”.

PROBLEM

The existing state of many older buildings is a cause for concern on public safety grounds. To assist owners to meet certain building and fire safety obligations concerning their buildings, two loan schemes have been established – the Building Safety Improvement Loan Scheme (BSILS) with a commitment of \$500 million under the Director of Buildings (DB) and the Fire Safety

/Improvement

Improvement Loan Scheme (FSILS) with a commitment of \$200 million under the Director of Fire Services (DFS). However, the scope of these loan schemes is not comprehensive enough to cover all necessary works for improving building and fire safety.

PROPOSAL

2. We propose to merge the BSILS and the FSILS into a single loan scheme, to be known as the “Comprehensive Building Safety Improvement Loan Scheme” (the Comprehensive Loan Scheme), with a commitment of \$700 million, an expanded scope and more flexible eligibility criteria to assist owners to maintain and improve their property. DB will be the administrator of the Scheme, with an Advisory Committee consisting of government officials from the relevant bureaux and departments and non-official members appointed from the relevant industries and community organizations. Simplified procedures will be adopted for applications under the Comprehensive Loan Scheme.

JUSTIFICATION

Existing Schemes

3. Members approved the BSILS and the FSILS in 1998 to provide financial assistance to building owners to encourage them to carry out improvement works to their buildings. The scope of the BSILS covers improvements to the structural stability, external finishes and fire safety (specifically means of escape) of buildings and incidental works under a voluntary Building Safety Inspection Scheme, with eligibility restricted to owners of such properties. In addition, loans are offered to owners of target buildings under the Buildings Department (BD)’s ‘blitz’ operations to help them to carry out required repair works or remove unauthorized building works (UBWs) on the external walls of their buildings. Up to 31 March 2001, 592 applications for loans had been received, and a total of \$16.98 million involving 462 applications had been approved. As regards the FSILS, the scope is restricted to owners of prescribed commercial premises and specified commercial buildings to improve the fire safety measures of their premises, such as fire service installations and equipment and means of escape, as required by statutory Fire Safety Directions or Fire Safety Improvement Directions under the Fire Safety (Commercial Premises) Ordinance (Cap. 502). Up to 31 March 2001, six applications had been received, and two applications totalling \$386,000 had been approved.

/Problems

Problems Encountered by Property Owners

4. As indicated by the low take-up rate, the two existing loan schemes do not fully meet the requirements of responsible owners interested in carrying out inspections, repairs and improvement works to their buildings. In the case of the BSILS, this may be due to the difficulty of individual owners in obtaining consent to join the loan scheme from other owners of the same building. Under the FSILS, applicants who have volunteered to carry out fire safety upgrading or improvement works but have received no statutory directions are unable to use the loan scheme. In addition, the two loan schemes do not cover all the building safety matters.

Enhanced Support for Owners

5. The Planning and Lands Bureau has recently published an implementation plan for a comprehensive strategy for building safety and timely maintenance covering all private buildings. The initiatives contained in the plan have received warm support from the public. The proposal to merge the BSILS and the FSILS for better support to property owners has been particularly welcomed.

Expanded Scope of the Comprehensive Loan Scheme

6. In addition to the scope covered by the BSILS and FSILS, we propose that the scope of the Comprehensive Loan Scheme should cover the new areas described below –

- (a) improvement to building safety;
- (b) removal of UBWs, including illegal rooftop structures;
- (c) improvement to fire protection, whether under a statutory direction/order or on a voluntary basis;
- (d) improvement to fire safety of cubicles, e.g. fire resistance of kitchens, fire service installations and electrical wiring;
- (e) replacement of major components or entire lifts;
- (f) improvement to slope safety, including investigation and upgrading of safety standards; and
- (g) other matters involving building safety, e.g. repair, maintenance and replacement of electrical wiring, gas risers and plumbing.

/Eligibility

Eligibility Criteria

7. We propose that the Comprehensive Loan Scheme should cover individual owners of all private buildings, including domestic, composite, commercial and industrial buildings, should be eligible. To encourage more owners to undertake building safety works, we will streamline and simplify application procedures for the Comprehensive Loan Scheme. We also propose that owners employing qualified building professionals and/or competent contractors for works within the scope of the Scheme should be eligible for loans to carry out works, whether in response to statutory directions/orders or on a voluntary basis.

Terms of the Comprehensive Loan Scheme

8. We propose that the terms of the Comprehensive Loan Scheme should in general follow those of the BSILS. We propose, therefore, that the interest rate for loans under the Scheme should be set on the “no-gain, no-loss” basis, which is currently pitched at the average best lending rate quoted by the three note-issuing banks minus two percentage points. However, DB may, on the advice of the Advisory Committee, grant loans on an interest-free basis to needy applicants subject to assessment of income and assets. At present, loans to owners of prescribed commercial premises and specified commercial buildings under the FSILS are charged with interest at the average best lending rate quoted by the three note-issuing banks. Upon the merger of the BSILS and the FSILS, we consider it will be more equitable to apply the “no-gain, no-loss” interest rate to the Comprehensive Loan Scheme, as owners of commercial premises in composite buildings are already eligible for this under the BSILS.

9. We also propose that interest and loan repayment for the Comprehensive Loan Scheme should be set at up to 36 months, as is the existing arrangement under the BSILS and the FSILS. We further propose that DB should have the discretion, on the advice of the Advisory Committee, to extend this period to 72 months or to waive payments until the transfer of the property for persons in financial hardship, for whom repayments would be an unsupportable burden. All loans would be secured appropriately.

10. The scope of works to be covered by the Comprehensive Loan Scheme and the revised parameters for the grant of loans are detailed in

Encls. 1&2 Enclosures 1 and 2.

/Benefits

Benefits of the Comprehensive Loan Scheme

11. Liberalization of the eligibility criteria will assist a wider spectrum of property owners in need. The expanded scope will meet all their practical requirements for building safety and timely maintenance. More user-friendly procedures will help owners to make more effective use of the Comprehensive Loan Scheme. Standardizing the interest rate at “no-gain, no-loss” will also make the Scheme more attractive and provide greater assistance to owners. This in turn will help to achieve the objective of bringing about a safer built environment in Hong Kong.

FINANCIAL IMPLICATIONS

12. The Comprehensive Loan Scheme is a revolving loan facility with a commitment of \$700 million. The interest rate is set to ensure there will be no resultant gain or loss to Government. Upon merger of the two existing loan schemes, DB will redeploy the existing posts dedicated to the implementation of the BSILS to establish a coordinated one-stop service under BD to process applications under the Comprehensive Loan Scheme. DB will also require two additional posts – a Senior Executive Officer and a Executive Officer I – estimated to cost \$1.883 million per annum to administer the Scheme. We have included the additional requirement in the 2001-02 Estimates.

CONSULTATION

13. We consulted the Legislative Council Panel on Planning, Lands and Works on 21 November 2000 and 4 December 2000 on building safety and timely maintenance. Members of the Panel strongly supported the proposal to merge the two existing loan schemes under a new comprehensive loan scheme with an expanded scope. During the consultation with the Legislative Council Panel on Security on 2 November 2000 on the Fire Safety (Buildings) Bill, Members noted the proposed merger of the two loan schemes as a source of finance for owners affected by the Bill. We consulted the Legislative Council Panel on Planning, Lands and Works specifically on the proposed Comprehensive Loan Scheme on 2 April 2001 and Members were supportive.

TIMETABLE

14. Subject to approval by the Finance Committee of the Legislative Council, we aim to start inviting applications under the Comprehensive Loan Scheme in July 2001. We will publicize the Scheme through seminars, the

/existing

existing liaison networks and Government websites. We will review the adequacy of the loan commitment in the light of experience and the actual demand for such loans.

BACKGROUND INFORMATION

15. On 20 March 1998, Finance Committee approved a commitment of \$200 million under the FSILS to provide loans to assist owners of prescribed commercial premises and specified commercial buildings who are required by statutory directions to upgrade or improve the fire safety measures of their premises or buildings (ref. FCR(97-98)104). At the same meeting, Members also approved a commitment of \$500 million under the BSILS to provide loans to owners of domestic and domestic/commercial buildings for carrying out inspections and repairs to their buildings (ref. FCR(97-98)105). DFS administers the FSILS and DB is the loan administrator for the BSILS. Both are supported by Advisory Committees consisting of government officials from the relevant bureaux and departments and non-official members appointed from the relevant industries.

16. The proposal to merge the BSILS and the FSILS into a single loan scheme to help owners with financial difficulty to undertake necessary maintenance, improvement and repairs is one of the commitments made by the Chief Executive in his 2000 Policy Address.

17. The merger of the two existing loan schemes is one of the key proposals put forward by the Task Force on Building Safety and Preventive Maintenance under the Planning and Lands Bureau to promote safety and timely maintenance of private buildings.

**Scope of Works Covered by the
Comprehensive Building Safety Improvement Loan Scheme**

- (a) Improvement of the structural aspects of buildings, e.g. repair to loose, cracked, spalled or otherwise defective concrete;
- (b) improvement of the safety of external elevations of buildings, e.g. repair to defective rendering and mosaic tiles;
- (c) improvement of the fire safety of buildings, e.g. means of escape, means of access for fire fighting and rescue and fire resisting construction;
- (d) provision of, improvement to and maintenance of, fire service installations and equipment of buildings;
- (e) removal of unauthorized building works and illegal rooftop structures;
- (f) improvement of building and sanitary services, e.g. repairing, maintaining and replacing lifts, fire service installations and equipment, electrical wiring, gas risers, replacing defective soil, waste, rainwater, water supply and vent pipes, and underground drainage;
- (g) maintenance or improvement of the safety of slopes and retaining walls;
- (h) improvement of the fire and building safety of cubicles;
- (i) maintenance works in association with the above works, including investigation works and professional services; and
- (j) any incidental or consequential works related to (a) to (i) above, e.g. “touching up” works after remedial works.

**Parameters for the Grant of Loans under the
Comprehensive Building Safety Improvement Loan Scheme
(the Comprehensive Loan Scheme)**

Purpose of the Loan

The Comprehensive Loan Scheme will offer non-means-tested loans to owners of domestic, domestic/commercial, commercial and industrial buildings who need financial assistance to carry out building/fire/slope safety improvement works required under orders/directions by the Building Authority/Fire Services Department or voluntarily. A list of works eligible for loans under the Scheme is set out in Enclosure 1.

Maximum loan amount

The loan amount to be granted to an individual owner will be determined after taking into account the total cost of the inspection/works, and the number of owners who contribute towards the improvement project, subject to a ceiling of \$1 million per unit of accommodation for building-cum-fire safety improvement works (inclusive of lift and minor slope maintenance works). For preventive slope maintenance works carried out voluntarily or works required under Dangerous Hillside Orders or Buried Drains Affecting Slopes Orders, a ceiling of \$1 million per unit of accommodation will be imposed. In exceptional cases, Director of Buildings (DB) may, subject to the prior agreement of the Secretary for the Treasury, approve a larger loan. In support of their applications, applicants will have to provide details of quotations/tenders of the required works from building professionals, e.g. registered or competent contractors, qualified geotechnical engineers, and/or authorized persons registered under the relevant Ordinances.

Release of loans

DB will release the loans by stages according to the works schedule and the actual progress of works. The borrowers will be required to submit progress reports certified by the registered or competent contractors, qualified geotechnical engineers and/or authorized persons as appropriate. DB, Director of Fire Services, Director of Electrical and Mechanical Services, Director of Civil Engineering or Director of Water Supplies, as appropriate, will conduct random inspections to ensure that the required works are carried out according to the schedule and that loans are spent for the intended purposes.

/Interest

Interest

Borrowers will pay interest at a rate determined by Government on the “no-gain, no-loss” principle¹. DB may, on the advice of the Advisory Committee, grant an interest-free loan based on an assessment of the level of income and assets of the applicants, for special cases where owners are in particular financial hardship², e.g. elderly singletons with little savings and income.

Repayment

Borrowers will repay the loan principal and interest by instalments within a period of up to 36 months. For borrowers in financial hardship, repayment may be extended to 72 months or upon transfer of title, depending on circumstances as advised by the Advisory Committee. The first instalment will become due one month after the final drawdown of the loan. With the prior approval of DB, borrowers may opt for early repayment of the loan. DB will charge interest at the prevailing best lending rate to cover administrative costs on any unauthorized overdue amount until it is fully repaid.

Security

DB will require borrowers to provide adequate security for the loan. Depending on the amount of the loan, securities provided will take the form of a legal charge registered against the property, a bank guarantee, a deed of indemnity or such other form of security to the satisfaction of DB. DB may also waive the requirement for the provision of security for the loan after considering the circumstances of individual cases.

¹ The no-gain-no-loss interest rate is currently set at two percentage points below the average best lending rate of the note-issuing banks. This formula ensures that the interest rate will move in tandem with the market lending rate. We will review the interest rate at the end of each month and adjust it when the difference between the updated rate and the prevailing rate is one percentage point or more, or when the prevailing rate has remained stationary for over six months. The prevailing no-gain-no-loss interest rate is 6.5% per annum.

² For reference, the criteria recommended by the Advisory Committee for the Building Safety Improvement Loan Scheme (BSILS) for the grant of interest-free loans are that the applicant should -

- (a) be a recipient of Comprehensive Social Security Assistance; or
- (b) be a recipient of Normal Old Age Allowance; or
- (c) have low income, defined in general by reference to the Average Household Non-housing Expenditure (after deducting monthly Mortgage Repayment, monthly BSILS loan repayment and Mandatory Provident Fund monthly payment) for Waiting List applicants of the Housing Authority.

These criteria are subject to review by DB (on the advice of the Advisory Committee).