

ITEM FOR FINANCE COMMITTEE

**HEAD 138 – GOVERNMENT SECRETARIAT :
DEVELOPMENT BUREAU
(PLANNING AND LANDS BRANCH)**

**Subhead 700 General non-recurrent
New Item “Operation Building Bright”**

Members are invited to approve a new non-recurrent commitment of \$700 million for implementing the “Operation Building Bright”.

PROBLEM

Amid the financial tsunami, the construction sector is hard hit, facing a surging unemployment rate as private sector construction works slow down while workers displaced from other places return to Hong Kong. At the same time, with the economic slowdown and rising unemployment, it is likely that owners of old and dilapidated buildings would find it more difficult to carry out repair and maintenance works in a timely manner. This will not only render such old buildings less safe, thereby jeopardising public safety, but also further reduce job opportunities for repair and maintenance workers in the construction industry.

PROPOSAL

2. The Secretary for Development (SDEV) proposes to launch a one-off \$1-billion “Operation Building Bright” (the Operation) to assist owners of about 1 000 old and dilapidated buildings to carry out repair and maintenance works over the next two years. SDEV proposes to create a new non-recurrent commitment of \$700 million as Government contribution to the Operation while the remaining \$300 million will be contributed by the Hong Kong Housing Society (HKHS) and the Urban Renewal Authority (URA) on an equal sharing basis (i.e. \$150 million each).

3. While we estimate that the Operation will be able to benefit about 1 000 old buildings based on certain assumptions about the average number of units in the target buildings; the average cost of the needed repair works; and the number of elderly versus non-elderly owners, the intention is to make the full use of the proposed \$1 billion designated for the Operation to aid as many buildings as possible.

JUSTIFICATIONS

4. According to statistics released by the Census and Statistics Department, during the period from December 2008 to February 2009, the unemployment rate for the construction sector reached 9.8%, comprising 8.4% in foundation and superstructure construction and 14.2% in decoration and maintenance works. Under the prevailing economic climate, some owners of old and dilapidated buildings may be hesitant in committing financial resources to conduct necessary building repair and maintenance works. The safety condition of such buildings will continue to deteriorate, thus posing dangers to not only occupants in the buildings but also passers-by. The existence of a large number of old and dilapidated buildings would also adversely affect Hong Kong's cityscape.

5. There have been widespread suggestions from Legislative Council (LegCo) Members and various stakeholders in the community, particularly during Financial Secretary's consultations on the 2009-10 Budget, that expediting building maintenance is a pragmatic way of creating additional jobs in the construction industry. Given its public benefits, one-off government spending in this area is considered a win-win solution.

6. The experience of HKHS and URA in the implementation of various assistance schemes to promote building repair and maintenance over the years reveals that voluntary maintenance of old buildings is often hampered by the absence of owners' organisations and/or the presence of absentee, elderly, low-income and un-cooperative owners. Even for buildings with owners' corporations (OCs), large-scale repair and maintenance works for common areas are often indefinitely postponed or even abandoned because of absentee owners or owners who refuse/are unable to finance their shares. Some OCs of those buildings may also be inactive or defunct. This situation is more serious for old buildings, buildings with low rateable values, and those without OCs. Some such buildings have also defaulted on repair orders issued by the Buildings Department (BD). The safety and living conditions of the common areas of these buildings are highly unsatisfactory and may become dangerous if the lack of maintenance situation continues or even aggravate due to owners' inertia to act under the present economic climate.

/Objective

Objective

7. As a specific measure for “Preserving Jobs”, and to achieve the dual objective of creating more job opportunities in the repair and maintenance sector of the construction industry as well as promoting building safety and improving the cityscape and living environment during the economic downturn, the Government proposes, in collaboration with HKHS and URA, to launch a \$1-billion “Operation Building Bright” in the coming two years to provide subsidies and one-stop technical assistance to assist owners of about 1 000 old buildings, including old buildings without OCs, to carry out repair works. This one-off special operation will provide targeted financial support to owners of old and dilapidated buildings to carry out repair and maintenance works. Where owners of such buildings are unable to organise repair works by themselves, the BD will take complementary actions to mandate the works required. The Operation will be “building-based”, with objective criteria established to efficiently identify target buildings.

8. The primary objective of the Operation is to create a large number of job opportunities for the construction industry, particularly in the field of building repair and maintenance, within a short period of time to alleviate the relatively high unemployment rate in the industry. We estimate that the Operation can create about 10 000 job opportunities for construction and maintenance workers as well as related professionals and technicians in the next two years.

9. The Operation is a one-off campaign with a specific target and purpose. We uphold the principle that building maintenance is basically the responsibility of building owners. The Government will continue to promote building repair and maintenance through legislation and various technical and financial assistance schemes to ensure building safety in Hong Kong. For example, we tabled in early April 2009 the regulation for implementing the minor works control regime in LegCo and aim to implement the system within 2009-10 to provide simple and effective statutory procedures for the carrying out of small-scale building works. We also aim to introduce the legislation for the mandatory building and window inspection schemes into LegCo in late 2009. BD, HKHS and URA will continue to provide assistance through various grant and loan schemes to help owners carry out repair and maintenance works to their buildings.

10. In order to reap quick benefits, the Operation is “building-based”. We will streamline the modus operandi and do away with complicated procedures but without compromising the prudent use of the public resources earmarked for the Operation. Once a building is selected as a target building in accordance with the preset objective criteria, all owners of the building will be subsidised without

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the need for individual owners to undergo asset or income means tests. Regarding buildings having difficulties in co-ordinating repair works, such as buildings without OCs, BD will get directly involved by serving statutory repair orders. If the orders are not complied with, BD will arrange consultants and contractors to carry out repair works, and recover the costs from the owners after deducting the subsidies they are eligible for under the Operation.

Target Buildings

11. Target buildings of the Operation have to meet the following criteria –

- (a) the buildings are residential or composite buildings aged 30 years or above;
- (b) the buildings comprise no more than 400 residential units;
- (c) the average rateable value of the residential units does not exceed \$100,000 per annum for buildings in urban areas¹, or \$76,000 per annum for buildings in other areas; and
- (d) the buildings lack maintenance or are in dilapidated conditions, requiring repair or maintenance works (examples include buildings subject to statutory orders issued by BD).

12. Target buildings will be divided into two categories –

- (a) Category 1 covers buildings with OCs. The OCs which consider that their buildings fulfill the criteria in paragraph 11 above may submit applications for grants under the Operation to carry out voluntary repair works. HKHS and URA will provide technical advice and assistance; and
- (b) Category 2 covers buildings having difficulties in co-ordinating repair works, such as buildings without OCs. BD, HKHS and URA will proactively select these buildings, taking into account comments made by the District Councils.

/Amount

¹ Using HKHS' current delineation for simplicity, urban areas include Hong Kong Island, Kowloon, Sha Tin, Kwai Tsing and Tsuen Wan.

Amount of Grant

13. There will not be asset or income means tests. Once an application is approved or a building is selected for action under the Operation, owners of the target building concerned (including residential and commercial units) can receive a grant amounting to 80% of the cost of repair, subject to a ceiling of \$16,000. Elderly owner-occupiers aged 60 or above can receive a grant to cover the full cost of repair, subject to a ceiling of \$40,000.

14. In case the grant under the Operation is not sufficient to fully cover the cost of repair, owners may apply for further assistance in the form of loans from the Comprehensive Building Safety Improvement Loan Scheme administered by BD. Elderly owner-occupiers satisfying the means test may apply for a further grant from the \$1-billion Building Maintenance Grant Scheme for Elderly Owners introduced in May 2008, which is also administered by HKHS.

Use of Grant

15. The grant must first be used for repair and maintenance works in common areas of target buildings relating to the structural and fire safety of buildings as well as the sanitary facilities, including –

- (a) repair of building structure, e.g. repairing loose, cracked, spalled or defective concrete;
- (b) repair of external walls of buildings, e.g. repairing defective rendering and mosaic tiles;
- (c) repair or replacement of defective windows;
- (d) repair of building sanitary services, e.g. repairing, maintaining and replacing defective soil, waste, rainwater, vent pipes and underground drainage; and
- (e) repair of defective fire safety constructions, and fire service installations and equipment of buildings.

Maintenance works in association with the works in (a) to (e) above, including investigation works and professional services; and any incidental or consequential works, such as touch-up and finishing works arising from the repair or remedial works, will also be covered.

16. After covering the cost of works stated in paragraph 15 above, any remaining grant may be used for additional repair and improvement works in the common areas, including –

- (a) removal of unauthorised building works and illegal rooftop structures;
- (b) improvement of fire safety constructions, and fire service installations and equipment of buildings;
- (c) improvement of building services and facilities, e.g. repairing, maintaining and replacing lifts, electrical wiring, gas risers and fresh water pipes;
- (d) maintenance or improvement works for slopes and retaining walls; and
- (e) repair of water-proofing membranes at rooftops and flat roofs and works to alleviate water seepage problems.

Maintenance works in association with the works in (a) to (e) above, including investigation works and professional services; and any incidental or consequential works, such as touch-up and finishing works arising from the repair or remedial works, will also be covered.

17. The OCs of Category 1 buildings must appoint authorised persons (APs) and qualified contractors for the building repair works. The tendering process should also follow the requirements and procedures of the Building Management Ordinance (Cap. 344). We will co-ordinate and formulate the application procedures and modus operandi of the Operation in consultation with the Independent Commission Against Corruption.

18. The grant is not applicable to works with contracts already awarded to contractors before 25 February 2009 (i.e. the date when the Financial Secretary delivered the 2009-10 Budget Speech). Nevertheless, OCs of eligible buildings may apply for grants under the Operation to carry out other works which fall within the ambit set out in paragraphs 15 to 16 above but are not covered by the contracts so awarded. For works with contracts awarded on or after 25 February 2009, if the concerned building satisfies the eligibility criteria and the works and tendering

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procedures satisfy all the prescribed requirements, the OC of the building may also apply to participate in the Operation. Such application, together with all other applications, will be assessed and prioritised in accordance with the relevant procedures to be drawn up (paragraph 17 above).

19. Repetition of the same items of repair works which had been completed in the last five years is not eligible for grants under the Operation, unless the areas/facilities relating to such works have become dilapidated again.

Monitoring and Control

20. The Government will work closely with HKHS and URA to ensure smooth implementation of the Operation. Subject to Members' approval of committing \$700 million for the Operation, we will disburse the Government's share by installments to HKHS and URA which will assist in administering the Operation. HKHS and URA will respectively open a separate bank account for keeping the funds and allocating grants to OCs/owners of target buildings, or reimbursing BD for carrying out the default works for the target buildings, as appropriate. HKHS and URA will be separately responsible for the management and investment of the funds. Any interests generated will be ploughed back to the Operation for making grants to the owners of target buildings and for reimbursing HKHS and URA their out-of-pocket expenses² incidental to the administration of the Operation.

21. HKHS and URA will each be required to submit regular progress reports on, *inter alia*, the financial position of the Operation, the number of target buildings and owners benefited under the Operation, the amount of grants drawn, interest and investment income, performance on investment and such other information as required by the Government. HKHS and URA will also arrange to conduct audit checks of their accounts and operations. An independent auditor will conduct an annual audit on the accounts of the Operation. The detailed terms of co-operation between the Government, HKHS and URA will be stipulated in a memorandum of understanding to be signed between the three parties.

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² HKHS and URA will absorb the cost of staff in administering the Operation for the Government. Only out-of-pocket expenses will be charged to the Operation's funding and these include legal costs, auditor's fees, costs for publicity activities, etc.

22. A steering committee comprising representatives from BD, HKHS and URA will be established to examine special cases where there are complications or special considerations are required in establishing the eligibility of target buildings and in selecting and prioritising target buildings for the Operation. Cases where there are difficulties in establishing the amount of grants eligible for the owners of the target buildings will also be examined by the steering committee. We will review the Operation after nine months of implementation.

FINANCIAL IMPLICATION

Non-recurrent Expenditure

23. We will disburse the funding of \$700 million to HKHS and URA by equal installments over a period of two years in 2009-10 and 2010-11. If Members approve the proposal, we will offset the supplementary provision required for implementing the Operation in 2009-10 by deleting an equivalent amount under Head 106 Miscellaneous Services Subhead 789 Additional commitments. We will include sufficient provision under Head 138 in the Estimates of the subsequent financial year for meeting the estimated cash flow required.

Recurrent Expenditure

24. The Operation has no additional recurrent financial implications. The associated staff costs to implement the Operation will be absorbed by HKHS and URA. The Development Bureau and BD will also meet the staffing requirements from their existing resources.

IMPLEMENTATION PLAN

25. To alleviate the unemployment situation in the construction industry and to expedite the repair of old and dilapidated buildings, it is highly desirable to implement the Operation as early as possible. Subject to Finance Committee's approval of the non-recurrent commitment of \$700 million, the Operation will be implemented in May 2009 at the earliest. The exact date of launch of the Operation will be publicised shortly.

26. OCs of eligible buildings may apply for participating in the Operation as Category 1 buildings. The application period will last for one month. A centralised application process will be developed to facilitate submission of applications. Computer ballot will be conducted after the application period to

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determine the priorities of the eligible buildings. The number of target buildings under Category 1 is initially estimated at about 500. To give OCs of potential target buildings advance notice, we have already distributed information pamphlets to these OCs by mail. HKHS, URA and the Home Affairs Department are also approaching individual OCs to inform them about the Operation and to encourage them to make preparations to apply for joining the Operation.

27. According to our proposed schedule, the OCs will be advised of the application results within June 2009 at the earliest. Upon receipt of the approval-in-principle for participating as a target building under Category 1 of the Operation, the OCs should appoint APs to co-ordinate the repair works and qualified contractors to commence the works within a specified period. HKHS and URA will be the contact points for the OCs and will provide technical advice and support to the owners. The two agencies will also be responsible for the administration of the Operation, monitoring the progress of repair and maintenance works and disbursement of funds to the OCs.

28. Regarding Category 2 buildings, the steering committee comprising representatives from BD, HKHS and URA, will select buildings having difficulties in co-ordinating repair works, such as buildings without OCs, which have structural safety problems and defective sanitary facilities, as target buildings. The first batch of Category 2 buildings which we will act upon will be about 300 buildings with existing default repair orders issued by BD. For buildings the owners of which are unwilling or unable to voluntarily conduct repair works, BD in exercise of its statutory power will hire consultants and contractors to carry out the repair works required by the orders on behalf of the owners. After deducting the amount of grants available to each unit under the Operation, BD will recover the remaining repair costs and supervision charges from the owners. We estimate that repair works on these buildings will commence gradually from June 2009 at the earliest.

PUBLIC CONSULTATION

29. We consulted the LegCo Panel on Development on the details of the Operation on 31 March 2009. Members were supportive of the proposal. In addition, we briefed the Chairmen of the 18 District Councils on the Operation on 27 February 2009 and received positive responses.

/BACKGROUND

BACKGROUND

30. As a specific measure for “Preserving Jobs”, the Financial Secretary announced in the 2009-10 Budget Speech that the Government will, in collaboration with HKHS and URA, launch a \$1-billion “Operation Building Bright” for two years to provide subsidies and one-stop technical assistance to assist owners of about 1 000 old buildings to carry out repair and maintenance works, including old buildings without OCs.

Development Bureau
April 2009