

ITEM FOR FINANCE COMMITTEE

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

Subhead 700 General non-recurrent Item 865 Operation Building Bright

Members are invited to approve an increase in the commitment from \$0.7 billion by \$1 billion to \$1.7 billion under Head 138 – Government Secretariat: Development Bureau (Planning and Lands Branch) Subhead 700 General non-recurrent Item 865 Operation Building Bright.

PROBLEM

There are more applications from owners of old and dilapidated buildings than can be accommodated by the approved commitment of \$700 million for the implementation of the Operation Building Bright (the Operation).

PROPOSAL

2. The Secretary for Development proposes to inject an additional funding of \$1 billion into the Operation.

JUSTIFICATIONS

3. As a special measure for “Preserving Jobs” amidst the financial tsunami, the Financial Secretary announced in the 2009-10 Budget Speech on 25 February 2009 that the Government would, in collaboration with the Hong Kong Housing Society (HKHS) and the Urban Renewal Authority (URA), launch a \$1-billion Operation to provide subsidies and one-stop technical assistance to help

owners of old and dilapidated buildings in the coming two years to carry out repair works. On 24 April 2009, the Finance Committee (FC) approved, vide FCR(2009-10)3, a non-recurrent commitment of \$700 million as Government's contribution to the Operation with the remaining \$300 million to be contributed by HKHS and URA on an equal sharing basis (i.e. \$150 million each). The Operation is a one-off campaign aimed at achieving the dual objective of creating more job opportunities for the construction sector amidst the financial tsunami and improving building safety. The eligibility criteria of target buildings and scope of works for the Operation are set out at Enclosure.

Encl.

Latest Update and Progress of the Operation

4. Following FC's approval on 24 April 2009, the Operation was launched on 7 May 2009. As set out in FCR(2009-10)3, the original budget of \$1 billion is to serve the following two main categories of target buildings meeting the eligibility criteria –

- (a) Category 1 covers buildings with owners' corporations (OCs); and
- (b) Category 2 covers buildings whose owners have difficulties in co-ordinating repair works (such as buildings without OCs and those with defaulted statutory repair orders issued by the Buildings Department (BD)).

For Category 1 buildings, we would invite OCs of eligible buildings to apply and their priority in carrying out works under the Operation will be determined by a computer ballot. For Category 2 buildings, they will be identified based on the defaulted statutory repair orders issued by BD and nominations by the District Councils (DCs) and the Legislative Council (LegCo). The \$1-billion funding is estimated to be able to cover 500 buildings each under Category 1 and Category 2, making a total of about 1 000 buildings. The response to the Operation has been very encouraging. The latest progress of the Operation is outlined in ensuing paragraphs.

Category 1 Target Buildings

5. Our target was to assist about 500 buildings under this category. To meet the objective of early creation of jobs, the OCs of potential target buildings were invited during the period from 7 May to 6 June 2009 to submit applications for

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the Operation. A total of 1 128¹ applications have been received. As originally planned, the three parties (i.e. the Government, HKHS and URA) conducted a computer ballot on 19 June 2009 in the presence of an auditor and media to determine the priority for processing and granting of funds for the eligible buildings. The Operation team jointly set up by HKHS and URA has started issuing notification letters to inform the applicants of the ballot results. We estimate that with the original \$1-billion budget, approvals-in-principle to eligible buildings with priority number 1 to 500 would be issued shortly and the OCs concerned could proceed to engage building professionals for the co-ordination of the maintenance and repair works. The Operation team will continue to follow up with the OCs concerned to ensure that their proposed scope of works is in order and meets the requirements under the Operation. We expect that the repair works for these buildings would gradually be kick-started from the third quarter of 2009.

Category 2 Target Buildings

6. Our target was to assist about 500 buildings under this category. A steering committee comprising representatives from BD, HKHS and URA has identified 226 such buildings so far. In case these owners cannot organise themselves to implement the works, BD will carry out the works on their behalf and recover the costs and supervision charges from the owners concerned after deducting the grants that they are eligible for under the Operation.

7. To speed up the implementation of the Operation, the BD has, through redeployment of resources, advanced its enforcement programme from June to May 2009 and commenced repair works for a number of Category 2 target buildings. By mid-June, repair works for 11 target buildings have already been initiated, creating employment for a total of more than 200 building professionals, technicians and workers. We anticipate that from July 2009 onwards, repair and maintenance works for about 25 Category 2 target buildings could be initiated by BD each month.

8. We have also invited LegCo and DCs to nominate buildings to be tackled as Category 2 target buildings. In total, 509² nominations have been received. Among these nominations, 84 buildings are with defaulted statutory orders and have already been identified as Category 2 target buildings by the steering committee (paragraph 6 above). BD will continue to inspect the remaining 425 nominated buildings. We aim to complete the screening and selection of these buildings by the end of July 2009.

/Additional

¹ The largest numbers of buildings are in Yau Tsim Mong and Sham Shui Po Districts, with 297 (about 26%) and 129 (about 11%) applications respectively.

² The largest numbers of buildings are in Kowloon City and Sham Shui Po Districts, with 161 (about 32%) and 80 (about 16%) nominations respectively.

Additional Funding for the Operation

9. On 26 May 2009, the Financial Secretary announced additional relief measures to counter the financial crisis, help people tide over the difficulties and prepare for economic recovery. One of the relief measures is to earmark an additional funding of \$1 billion for the Operation in case the demand outstripped the originally allocated funding. As explained in paragraphs 5 to 8 above, it is clear that the original budget of \$1 billion will not be able to meet the demand identified so far.

10. If no additional funding is available, Category 1 buildings with a priority number beyond 500 after the balloting may not be assisted. In practice, we are only in a position to inform these OCs months later when it is clear that there would still be uncommitted funds within the \$1-billion provision, and the number eventually benefiting is likely to be small. Separately, we have received feedback from some LegCo and DC Members that certain OCs and owners had difficulty fulfilling all the formalities within the application period of the Operation and thus missed the deadline; and some did not have adequate time to establish OCs.

11. In view of the above, and given the job creation objective, we consider it justified to raise the funding commitment for the Operation immediately.

The Expanded Operation

12. In respect of the original budget of \$1 billion for the Operation, we have originally assigned equal sums of \$500 million each in our estimates to buildings under Category 1 and Category 2. However, from our experience in implementing the Operation so far, we assess that the cost for Category 1 buildings tends to be higher than that of Category 2, as the former in general have a larger number of units. The scope of works for Category 2 buildings is also more focused, mainly involving the repair of building structure and drainage works. Subject to Members' approval of our current proposal, we will deploy our total funding of \$2 billion more flexibly between the two categories of buildings to assist as many eligible cases as possible.

13. Since over 1 000 OCs have submitted their applications, subject to Members' approval of the \$1-billion additional funding, we will proceed to notify eligible OCs with priority number beyond 500 so that they may gradually commence organising their repair works under the Operation. In other words, as long as the eligibility criteria are met, all applications received would be able to benefit from the expanded Operation. We believe that this would remove a lot of

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anxiety amongst owners of Category 1 buildings that have a lower priority after the balloting. This will also help ensure early creation of jobs and enhance building safety. In response to the feedback of Members and the industry, we will co-ordinate with the building owners and suitably spread out the maintenance and repair works for this second group of buildings so as to dovetail with the availability of resources in the market.

14. For Category 2 buildings, with the availability of additional funding, we plan to select about 300 additional buildings with difficulties in co-ordinating building repair works. BD will conduct inspections, issue statutory repair orders and conduct works on behalf of the owners if necessary.

15. Furthermore, based on our rough estimation so far, after completion of the works in respect of all the valid applications received under Category 1 and selected buildings under Category 2, there may still be uncommitted funds available out of the \$2 billion for further deployment. We propose to make use of such remaining funds to accept new applications for Category 1 target buildings. To allow adequate time for building owners to make preparation and to establish OCs, and taking into account the availability of building professionals and contractors in the market, we intend to consider inviting another round of applications from OCs of eligible buildings only towards the end of 2009. By that time, we should have latest information about the costs of works for the buildings accepted and hence a more up-to-date estimate of uncommitted funding and the likely number of additional Category 1 buildings which we may further assist under the Operation.

16. Altogether, with a total budget of \$2 billion (i.e. \$1.7 billion from the Government and \$150 million each from HKHS and URA), we estimate that the Operation should be able to assist about 2 000 target buildings and create 20 000 job opportunities for construction and maintenance workers as well as related professionals and technicians.

17. The expanded Operation will continue to operate with the same criteria and categorisation of target buildings, scope of works as well as the maximum amount of grants eligible for each unit or elderly owner-occupier under the Operation.

/FINANCIAL

FINANCIAL IMPLICATIONS

Non-recurrent Expenditure

18. Similar to the Operation in progress, we propose to provide the additional capital injection to HKHS and URA, the administrators of the Operation, by installments within the next two years. The associated staff costs for implementing the Operation will be absorbed by HKHS and URA. BD would have to employ about 30 additional temporary contract staff to implement the inspection and repair works for the expanded Operation. The one-off staff cost and associated operating expenses amounting to about \$20 million will be charged against the increased commitment. BD has explored whether the workload could be absorbed by re-deployment of existing resources but confirmed that its other staff have been fully engaged in other duties. Out-of-pocket expenses, including legal costs, auditor's fees and costs for publicity activities, etc. will continue to be charged towards the commitment approved for the Operation.

Recurrent Expenditure

19. The Operation has no additional recurrent financial implications.

IMPLEMENTATION PLAN

20. The Operation will continue to be "building-based" with no requirement for asset or income means tests. Once an application is approved or a building is selected for action under the Operation, owners of the target buildings concerned (including residential and commercial units) can receive a grant amounting to 80% of the cost of repair in the common areas, 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 of the common areas, subject to a ceiling of \$40,000.

21. The Operation is one of the Government's special responses to the prevailing economic challenges to the Hong Kong economy. We uphold the principle that building maintenance is basically the responsibility of building owners. The Government will continue to promote building maintenance and repair through legislation and various technical and financial assistance schemes to ensure building safety in Hong Kong. For example, we aim to implement a minor works control system to provide simple and effective statutory procedures for the carrying out of small-scale building works within 2009-10. The Building (Minor Works) Regulation, stipulating the modus operandi of the control system, was passed by LegCo in May 2009. We also aim to introduce 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.

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22. HKHS and URA will continue to provide one-stop technical assistance to help owners to carry out the repair works under the Operation. The OCs of Category 1 buildings must follow the tendering requirements and procedures stipulated by HKHS and URA. The two organisations will assign staff to each building to provide advice and assistance. The modus operandi of the Operation will continue to follow the guidelines promulgated by HKHS and URA in consultation with the Independent Commission Against Corruption. Regarding Category 2 buildings, where owners of such buildings are unable to organise repair works by themselves, the BD will take complementary actions to mandate and carry out the works under the Buildings Ordinance (Cap 123).

23. As committed in FCR(2009-10)3, HKHS and URA will respectively maintain separate bank accounts for keeping the funds and allocating grants to target buildings. They will be responsible for the management of the funds and will be required to regularly submit progress reports and audit reports. The detailed terms of co-operation among the Government, HKHS and URA will continue to be stipulated in memoranda of understanding to be signed among the three parties.

PUBLIC CONSULTATION

24. We consulted the LegCo Panel on Development on the details of the proposal to inject an additional funding of \$1 billion into the Operation on 23 June 2009. In general, Members were supportive of the proposal. Some Members raised concerns about the imposition of a maximum number of 400 residential units in the building as an eligibility criterion. We will report back to the Panel on the latest progress of the Operation before the end of 2009 and review the need for such an eligibility criterion before rolling out any new round of applications for Category 1 buildings. We also briefed Chairmen and Vice-Chairmen of 18 DCs on the expanded Operation at their regular meeting on 11 June 2009 and received positive responses.

BACKGROUND

25. Amid the financial tsunami, the construction sector is hard hit, suffering a surging unemployment rate as private sector construction works slow down while Hong Kong workers in other places return to Hong Kong. During the period from March to May 2009, the unemployment rate for the construction sector stood at 12.1%, comprising 10.1% in foundation and superstructure construction and 18.7% in decoration and maintenance works. With the economic slowdown and high unemployment rate, it is likely that many owners of old and dilapidated buildings would tend to delay carrying out repair and maintenance works. This

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would 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. It is in this context that the Operation has been introduced as a one-off campaign aimed at achieving the dual objective of creating more job opportunities for the construction sector amidst the financial tsunami and improving building safety.

Development Bureau
June 2009

**Operation Building Bright
Eligibility Criteria of Target Buildings and Scope of Works**

Eligibility Criteria of Target Buildings

Target buildings of the Operation Building Bright (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 areas^{Note}, 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 the Buildings Department).

Scope of Works

2. The grant of the Operation 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;

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^{Note} Using the Hong Kong Housing Society's current delineation for simplicity, urban areas include Hong Kong Island, Kowloon, Sha Tin, Kwai Tsing and Tsuen Wan.

- (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 paragraph 2(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.

3. After covering the cost of works stated in paragraph 2 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 paragraph 3(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.
