

**For discussion
on 23 June 2009**

**LEGISLATIVE COUNCIL
PANEL ON DEVELOPMENT**

"Operation Building Bright" – Progress and Update

PURPOSE

This paper informs Members of the latest progress of "Operation Building Bright" (the Operation) and seeks Members' comments on the proposal to provide an additional funding of \$1 billion to the Operation to assist 1,000 more old and dilapidated buildings and to create more job opportunities over the next two years.

BACKGROUND

2. 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 February to April 2009, the unemployment rate for the construction sector reached 12.7%, comprising 10.2% in foundation and superstructure construction and 21.6% in decoration and maintenance fields. With the economic slowdown and rising unemployment, it is likely that many owners of old and dilapidated buildings would tend to delay carrying out repair and maintenance works. This 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.

3. Against the above background, as a specific measure for "Preserving Jobs", the Financial Secretary announced in his 2009-10 Budget on 25 February 2009 that the Government, in collaboration with the Hong Kong Housing Society (HKHS) and the Urban Renewal Authority (URA), would launch a \$1-billion Operation Building Bright to provide subsidies and one-stop technical assistance to help owners of old buildings in the coming two years to carry out repair works. The Operation aims to achieve the dual objective of creating more job opportunities for the construction sector in the near future and improving building safety and the cityscape. The eligibility criteria of target buildings and scope of works for the Operation are set out at the Annex. At its meeting on 24 April 2009, the Legislative Council Finance Committee approved a sum of \$700 million as Government's contribution to the Operation; the rest is contributed by HKHS and URA at \$150 million each.

LATEST UPDATE AND PROGRESS

4. We have earlier on advised Members that the \$1-billion commitment would serve two main categories of buildings meeting the said criteria, namely those with owners' corporations (OCs) and those having difficulties in coordinating repair works (such as buildings without OCs), at roughly 500 buildings each. For the former category (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 balloting. For the latter category (Category 2 buildings), these will be identified by the Buildings Department (BD) based on the statutory repair orders the Department has issued and with inputs from the District Councils (DCs). The response to the Operation has been very positive. The latest progress of the Operation is outlined in ensuing paragraphs.

Category 1 Target Buildings

5. Category 1 target buildings cover buildings with OCs. 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 grants to carry out voluntary repair works. In total, over 1,100¹ applications have been received. After our preliminary screening, about 1,050 buildings meet the basic criteria (i.e. in terms of building age, number of units and rateable value, as detailed at Annex) under the Operation. A computer ballot will be conducted on 19 June 2009 to determine the priority for processing and granting of funds for the eligible buildings. The Operation team jointly set up by HKHS and URA will issue approval-in-principle to the eligible target buildings according to the computer ballot results, having regard to availability of resources within the \$1-billion funding. We estimate that with the original budget, approvals to about 500 buildings could be issued immediately and the OCs could proceed to engage building professionals for the coordination 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. Category 2 target buildings cover dilapidated buildings having difficulties in coordinating repair works, such as buildings without OCs and

¹ The biggest numbers of buildings are in Yau Tsim Mong and Sham Shui Po Districts, with 295 (26%) and 129 (12%) applications respectively.

those with defaulted statutory repair orders issued by the BD. A steering committee comprising representatives from the BD, HKHS and URA has identified 226 such buildings. In case these owners cannot organise themselves to implement the works, the BD will carry out the works on behalf of them and afterwards claim the costs from the concerned owners after deducting the grants 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 the works for a number of Category 2 target buildings. As at 5 June 2009, repair works for ten target buildings have been initiated, creating employment for a total of more than 200 building professionals, technicians and workers. We anticipate that from now on, repair and maintenance works for about 25 Category 2 target buildings will be carried out by the BD each month.

8. We have also invited the Legislative Council (LegCo) and DCs to nominate buildings to be tackled as Category 2 target buildings, and have received an enthusiastic response from many districts. In total, 503² 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). The BD will continue to inspect the remaining 419 nominated buildings. We aim to complete the screening and selection of these buildings by the end of July 2009.

ADDITIONAL FUNDING FOR THE OPERATION

9. The Financial Secretary on 26 May 2009 announced a package of additional relief measures and earmarked an additional funding of \$1 billion for the Operation in case the demand outstripped the originally allocated budget. It is clear that the original \$1-billion budget of the Operation will not be able to meet the demand from owners of the old and dilapidated buildings, especially those with OCs with over 1,000 target buildings likely to be eligible. Although our original plan is to provide financial assistance to as many such OCs as possible, if no additional funding is available, buildings with a priority number beyond 500 after the balloting may not be assisted. 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.

² The biggest numbers of buildings are in Kowloon City and Sham Shui Po Districts, with 156 (31%) and 80 (16%) nominations respectively.

10. Given the above, we feel that a case of “demand outstripping supply” under the original \$1-billion Operation has been established and in order to speed up the creation of jobs, the funding commitment for the Operation should be immediately enhanced. We are therefore proposing to seek LegCo’s approval for additional funding of \$1 billion for an expansion of the Operation.

An Expanded Operation

11. In the first \$1-billion Operation, we have assigned equal sums of \$500 million each to buildings under Category 1 and Category 2. However, from our experience in implementing the Operation so far, we assess that the cost of 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 building structural and drainage works. In order to assist as many OCs as possible, we will deploy our total resources of \$2 billion more flexibly to assist as many buildings as possible.

12. Since over 1,000 OCs have put in their applications, we further propose that subject to LegCo’s approval of the \$1 billion additional sum sought, we should proceed to notify OCs with priority number after 500 so that they too may commence repair works under the Operation. In other words, as long as the eligibility criteria are met, all OCs that have applied would be able to benefit from the Operation in view of the funding enhancement. We believe that this would remove a lot of anxiety amongst owners in Category 1 buildings which have a lower priority following the balloting. This is also administratively the simplest approach which will suit the objective of early commencement of works, and hence early creation of jobs.

13. Furthermore, based on our 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 part 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 services in the market, we plan to invite another round of applications from OCs of eligible buildings near the end of 2009. By that time, we should have more concrete information about the costs of works for the buildings accepted and hence a more accurate estimate on the availability of resources and the likely number of buildings we may assist under the Operation. More Category 2 buildings could also be covered, depending on the availability of funds.

14. All together, with a total budget of \$2 billion, 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.

15. The Operation, with the additional funding, 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. 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 building concerned (including residential and commercial units) can receive a grant amounting to 80% of the cost of repair of 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.

16. The HKHS and the URA will continue to provide one-stop technical assistance to help owners to carry out the repair works. 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).

17. The Operation is one of the Government’s specific 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. The 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.

FINANCIAL IMPLICATIONS

18. Similar to the Operation which is on-going, we propose to provide the additional capital injection to the HKHS and the URA, the administrators of the Operation, by installments. The HKHS and the URA will respectively maintain separate bank accounts for keeping the funds and allocating grants to target buildings as in the on-going Operation. They will be responsible for the management of the funds and will be required to regularly submit progress

reports and audit reports. The associated staff costs for implementing the Operation will be absorbed by the HKHS and the URA. The BD would have to employ additional temporary contract staff to implement repair works for the additional Category 2 target buildings. Such cost is proposed to be provided by the additional \$1-billion funding of the Operation. Out-of-pocket expenses, including legal costs, auditor's fees and costs for publicity activities will continue to be charged towards the Operation fund. The detailed terms of cooperation among the Government, the HKHS and the URA will continued to be stipulated in memoranda of understanding to be signed among the three parties.

ADVICE SOUGHT

19. Members are invited to note the latest progress of the Operation and comment on the proposed way forward for injecting additional funding into the Operation so as to assist more owners of old and dilapidated buildings to carry out repair and maintenance works and create more job opportunities to alleviate the serious unemployment in the construction sector.

20. With Members' support, we intend to seek the approval of the Finance Committee for the additional funding to expand the Operation at its meeting on 3 July 2009.

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 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 areas³, 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 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;
- (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.

³ 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.

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.