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Subcommittee on Redevelopment of Buildings
Developed under the Civil Servants' Co-operative Building Society Scheme

Meeting on 25 January 2016

Background brief prepared by the Legislative Council Secretariat

Purpose

This paper provides background information on issues related to redevelopment of buildings developed under the Civil Servants' Co-operative Building Society ("CBS") Scheme and summarizes the major views and concerns expressed by Members since the 2012-2013 legislative session on the subject.

Background

2. The CBS Scheme is a form of civil servants' housing benefit managed by the Civil Service Bureau. It was launched in 1952 to allow the Administration to grant land at a concessionary premium, usually at one-third of the full market value ("FMV"), to enable eligible civil servants to build residential buildings through forming co-operative societies ("CBS buildings"). The legal titles of the land and the buildings are held by the respective CBSs which were set up under the Co-operative Societies Ordinance (Cap. 33) and registered by the Registrar of Co-operative Societies. A total of 238 CBSs have been formed in Hong Kong so far and they are responsible for the management and maintenance of CBS buildings, which occupy a total area of about 30 hectares in the territory. No CBS buildings have been built since the mid-1980s.

Legal titles of the flats

3. Under the respective underleases that a CBS signed with its members, CBS members have the right to use the flats but do not possess the legal titles to them. To allow the transfer of legal titles of CBS premises to individual CBS members and the dissolution of CBSs, the Administration introduced the Surrender and Regrant Approach in 1987¹. It was replaced in 1993 by the current arrangement, namely Modification of Lease Approach, under which a CBS may, upon obtaining the consent of 75% of its members, apply for dissolution. Individual CBS members may then acquire titles to their properties and land by deeds of assignment. According to the Administration, as at 30 November 2015, of the 238 CBSs, 186 have been dissolved and 52 have yet to be dissolved.

Payment of land premium upon redevelopment of the buildings

4. Of the 238 CBSs ever formed, only 12 had their buildings redeveloped. Redeveloping CBS buildings generally involves two levels of land premium payment. The first level is the outstanding two-thirds land premium payable to the Government for the removal of the alienation restrictions² on CBS flats³. The second level is the premium payable by the lot owner of the site if there is a need for him/her to seek to modify the terms of the land lease before the permissible gross floor area of the site can be fully utilized so as to achieve the maximum development parameters permitted under the relevant outline zoning plan. Some CBS representatives and CSB flat owners consider that the land premium they have to pay the Government is prohibitively high and this high

¹ Under the Surrender and Regrant Approach, a CBS can be dissolved subject to the unanimous consent of all members.

² Under the alienation restrictions, owners of flats of a CBS building are not permitted to assign, mortgage, underlet, part with possession of, or otherwise dispose of their properties, or enter into any agreement for such purposes.

³ According to the Administration, for the dissolved CBSs, an established mechanism is put in place under the Civil Service Bureau to allow CBS flat owners to apply for a temporary waiver so that they may sign sale and purchase agreements before paying the outstanding land premium. Under the current temporary waiver arrangement, the waiver is valid for a period of nine months. If the owners have a need, they may seek further extension. For those CBSs which have yet to be dissolved, the owners may transfer their CBS membership to other interested and eligible civil servants and move out from the CBS flats. In these cases, no payment of premium is involved. (<http://www.legco.gov.hk/yr14-15/english/counmtg/hansard/cm20150603-translate-e.pdf> p. 12357 - 12365)

land premium has increased the redevelopment cost for private developers, thus dampening private redevelopment initiatives⁴.

Need for redevelopment of buildings developed under the Civil Servants' Co-operative Building Society Scheme

5. When discussing the issues related to the redevelopment of CBS buildings at the meetings of the Panel on Development ("DEV Panel") on 28 May and 15 July 2013, some members pointed out that most CBS buildings were lacking in modern-day building facilities such as lifts, hence posing access problems to aged occupants with impaired mobility. With the deterioration in the conditions and environment of these buildings, many occupants would welcome the redevelopment of them. Some DEV Panel members were of the view that as CBS buildings were generally situated in premier locations in the urban areas and the Administration had been working hard to increase housing land supply, it was in the public interest to redevelop the buildings so as to release the development potential of the land lots concerned. At the meeting on 15 July 2013, DEV Panel passed a motion urging the Administration to launch redevelopment programmes for buildings developed under the CBS Scheme immediately to increase land supply in urban areas.

The Administration's preliminary proposals presented in May 2015

6. On 26 May 2015, the Administration briefed DEV Panel on three preliminary proposals to facilitate the redevelopment of CBS buildings ("the preliminary proposals"), including: (a) launching a Pilot Scheme to redevelop CBS buildings ("Pilot Scheme") by the Hong Kong Housing Society ("HKHS") for subsidized sale flats purpose under a "no loss" principle, that is, in taking on a CBS building redevelopment project, HKHS will expect that the gross receipt from the project will at least be capable of paying for all the development and acquisition costs and expenses; (b) inviting the Urban Renewal Authority ("URA") to designate a queue for applications from CBS flat owners for the services under the URA's Facilitating Services (Pilot Scheme) ("Facilitating

⁴ According to the views expressed by those representatives/owners at a meeting of the Panel on Development on 15 July 2013

Services")⁵; and (c) consolidating the existing procedures of the Lands Department ("LandsD") to facilitate the assessment of land premium involved in the redevelopment of CBS buildings. Details of the proposals are in **Appendix I**.

Pilot Scheme for redevelopment of buildings developed under the Civil Servants' Co-operative Building Society Scheme

7. On 16 July 2015, DEV Panel held a special meeting to receive public views on facilitating the redevelopment of buildings under the CBS Scheme. The CBS representatives and flat owners who attended the meeting generally held the view that the proposals under the HKHS Pilot Scheme were unacceptable. Noting that the Pilot Scheme would be implemented under a demand-led approach (i.e. it would be for the owners themselves to initiate applications to HKHS, and the eligibility criteria of the scheme included the requirement for the applicant CBS flat owners to secure 100% owners' participation from the land lot concerned within a reasonable period of time), DEV Panel members considered the requirement a very high threshold that was almost impossible to achieve.

8. The Administration explained that since the Pilot Scheme was meant to respond to some CBS flat owners' wish to have their buildings redeveloped, it was reasonable that HKHS should only come on board to redevelop a CBS building where all the owners had a desire to proceed with redevelopment. The Administration advised that the requirement of securing 100% owners' participation also arose from the fact that there were some 500 serving civil servants residing in CBS flats and the consideration that their right to continue to reside at the CBS flats was a housing benefit to which they were entitled.

9. The Administration was of the view that as CBS buildings were generally well kept, if HKHS was to take on applications with only 80 per cent or 90 per cent owners' participation under the Pilot Scheme, HKHS would have to bear the risk of failing to obtain compulsory sale orders from the Lands Tribunal under the Land (Compulsory Sale for Redevelopment) Ordinance (Cap. 545) at the end, or having to pay much higher prices in order to acquire the remaining 20 per cent or 10 per cent property interests, as a result of which

⁵ URA has set up a wholly-owned subsidiary, Urban Redevelopment Facilitating Services Company Limited, to implement the Facilitating Services (Pilot Scheme) to help owners of buildings in multiple-ownership to assemble titles for redevelopment. To submit a joint application to URA for the service, owners should have at least 50% or more of the undivided shares of the interests of each lot of the site. The role of URA is confined to coordinating the assembly of 80% to 90% of the titles in the subject buildings for joint sale in the market, and URA will not be involved in the acquisition of any interest in the buildings.

the project might not be able to proceed or would incur a significant loss. The Administration advised that it would continue to explore with HKHS possible ways forward to tackle special cases where the failure to obtain 100% owners' participation was due to missing owners or deceased owners who were intestate.

10. Under the HKHS Pilot Scheme, CBS building redevelopment projects would be taken on under the proposed "no loss" principle, and HKHS would pay land premium to the Government for lease modification necessary for the redevelopment. Some DEV Panel members cast doubt on the attractiveness of the scheme, given that the acquisition price to be offered by HKHS, after deducting the land premium payable to the Government, would not enable a CBS flat owner to purchase a replacement flat of the same size in the same area. They suggested that apart from allowing CBS flat owners who would participate in the scheme to purchase units from the HKHS's Flat-for-sale Scheme Secondary Market, the Administration should consider offering them a wider range of housing choices, such as giving them priorities in purchasing Home Ownership Scheme ("HOS") flats, and allowing them to move back to the subsidized sale flats to be provided at the redevelopment sites.

11. The Administration advised that the redevelopment potential of the CBS sites as a whole was not as high as generally perceived. As at June 2015, of the 184 CBSs that had been dissolved, 178 CBS sites (concerning 173 CBSs) had yet to be redeveloped, and it was roughly estimated that about 85 of these sites had the potential for redevelopment (that is, the redevelopment project might not incur a loss)⁶. Redeveloping all these 85 sites would yield additional floor area of some 230 000 square metres at maximum, and assuming that the size of each redeveloped unit measured 50 square metres, there would be a net gain of over 4 000 units, with an average of 50 more units per site⁷. The Administration took the view that the proposal to invite HKHS to launch the Pilot Scheme under the "no loss" principle would obviate the need for the Administration to use public funds to subsidize the redevelopment of CBS buildings. Given that subsidized sale flats such as HOS units were precious public resources and should be allocated with due care to cater for the needs of low-income households, to allow CBS flat owners participating in the Pilot Scheme to purchase flats from HKHS's Flat-for-sale Scheme Secondary

⁶ According to the Administration, the 85 CBS sites are mainly located in the Kowloon City, Eastern, Wan Chai and Sham Shui Po districts.
(<http://www.legco.gov.hk/yr14-15/english/counmtg/hansard/cm20150603-translate-e.pdf>
p. 12357 - 12365)

⁷ LC Paper No. CB(1)860/14-15(06)
<http://www.legco.gov.hk/yr14-15/english/panels/dev/papers/dev20150526cb1-860-6-e.pdf>

Market but not to give them priorities or concession in purchasing other subsidized sale flats would minimize the impact of the Pilot Scheme on prospective home owners eligible for HOS flats.

Proposal on inviting the Urban Renewal Authority to redevelop the buildings

12. Some DEV Panel members queried how the preliminary proposal to designate a queue for CBS flat owners' applications for URA's Facilitating Services could help facilitate the redevelopment of CBS buildings, given that the main difficulty facing CBS flat owners in applying for the Facilitating Services lay in the assembly of property titles for redevelopment. The Administration advised that URA would normally accord priority to providing its Facilitating Services to buildings in poor and dilapidated conditions. As CBS buildings were relatively better kept, they might not be accorded with such priority. If URA would designate a queue for the applications from CBS flat owners under the Facilitating Services, CBS buildings might stand a better chance of being redeveloped.

13. In response to a suggestion that the Administration should invite URA to launch a scheme to redevelop CBS buildings under a demand-led approach, the Administration advised that the purposes of URA were to undertake, encourage, promote and facilitate urban renewal so as to improve the standard of housing in Hong Kong. It would be inappropriate for URA to accord priority to redeveloping CBS buildings at the expense of the more dilapidated buildings with a greater urgency for redevelopment. Given that some CBS sites had good redevelopment potentials, CBS flat owners might apply for redevelopment under the Demand-led Redevelopment Project (Pilot Scheme) of URA and be selected by URA (if the applications met the requisite criteria).

Assessment of land premium

14. Some CBS representatives/flat owners expressed doubts on the legal basis for the Administration to claim that CBS members owed the Government two-thirds land premium. There were also views that the concession on land premium granted to CBS members in earlier years was an employment benefit offered to them when they were serving civil servants, and waiver of land premium on the redevelopment of CBS buildings would not result in violation of the rule of "no double housing benefits".

15. According to the Administration, the fact that the land for CBSs had been granted at a concessionary rate of one-third of the full market value of the

land at the time of land grant was clearly documented in many internal records⁸. The Administration advised that any concession on land premium payment required for the removal of alienation restriction on CBS flats or for lease modifications to redevelop CBS buildings would be a departure from established Government policy and practice. As the conditions of CBS buildings, when compared to other old buildings in the urban area, did not justify any dire need of redevelopment, if concessionary premium to facilitate the redevelopment of CBSs was contemplated, there could hardly be any justifications to support such policy priority.

16. In response to a question raised at the meeting on 16 July 2015 regarding whether the land for CBS buildings and buildings under the Government Built Housing Scheme ("GBHS"), including Lung Cheung Court on Broadcast Drive and Hong Lee Court in Kwun Tong, had been granted with similar terms and conditions in respect of land premium, the Administration explained that the provisions governing the requirement for payment of outstanding land premium for removal of a standard clause on restriction on alienation in the modified lease of all dissolved CBSs were modelled on the *Standard Letter of Notification of Lease Modification in the "Guidelines to be Followed to Achieve the Transfer of Title to Flats and Land From Civil Servants' Co-operative Building Societies to Their Individual Members (Modification of Lease Approach)"* issued by the Administration to all CBSs in January 1993⁹. There was a similar set of guidelines for premium payment before disposal of GBHS flats, that is, *"Guidelines to be Followed to Achieve Transfer of Title to Flats and Land of Government Built Housing Scheme from The Financial Secretary Incorporated to Individual Underlessees"* issued by the Administration to the two GBHSs in January 1998 and subsequently

⁸ According to the Administration, the "Notes of Twentieth Meeting with Staff Side of the Senior Civil Service Council on 14.1.86" is the record of a meeting between the Government and the Senior Civil Service Council on the Executive Council ("ExCo") decision to permit the transfer of title to flats and land from co-operative societies to their members, and to permit the sale, letting or other disposal of properties thereafter, subject to certain conditions. Paragraph 10 of the record states that "... as for co-operative societies, land had been granted at one third full market value." Another example is the "Note of a Meeting held in the ExCo Chamber on Friday, 13th June, 1969", which is the record of a meeting between the Government and representatives of successful applicants for flats at Lung Cheung Court, a Government Built Housing Scheme development. Paragraph (h) of the record states that "...The purchaser could not sublet at a profit because of the 1/3 FMV concessional land grant...". The two internal records are copied at Annex B and Annex A of LC Paper No. CB(1)1211/14-15(01). (<http://www.legco.gov.hk/yr14-15/english/panels/dev/papers/dev20150716cb1-1211-1-e.pdf>)

⁹ A copy of the guidelines is at Annex D of LC Paper No. CB(1)1211/14-15(01) <http://www.legco.gov.hk/yr14-15/english/panels/dev/papers/dev20150716cb1-1211-1-e.pdf>

amended in September 2007¹⁰. The Administration advised that according to the two sets of Guidelines for both CBS and GBHS flats, a similar formula was adopted for assessment of outstanding premium to be paid before the flats could be disposed of.

Motion on facilitating the redevelopment of buildings under the Civil Servants' Co-operative Building Society Scheme

17. Some DEV Panel members opined that the Administration should adopt special one-off arrangements to deal with the problems faced by CBS members or CBS flat owners and should not be constrained by the established policies. At the meeting on 16 July 2015, DEV Panel passed a motion to urge the Administration, within six months after the passage of the motion, to formulate and announce proposals which were more consistent with justice, more compassionate towards the retired civil servants affected and more practicable, as compared with those proposals "relating to the redevelopment of buildings under the Civil Servants' Co-operative Building Society Scheme" announced on 26 May 2015. In its written response to the motion provided to DEV Panel subsequently, the Administration stated that it would take into account the comments raised by members and deputations at the meeting and would, in collaboration with HKHS and the relevant bureau, departments and organizations, develop more concrete details on the preliminary proposals with a view to reporting back to DEV Panel in six months' time¹¹.

Recent development

18. The Administration will update the Subcommittee on its proposals to facilitate the redevelopment of CBS buildings at the meeting on 25 January 2016.

¹⁰ A copy of the relevant extract of the guidelines is at Annex E of LC Paper No. CB(1)1211/14-15(01).

<http://www.legco.gov.hk/yr14-15/english/panels/dev/papers/dev20150716cb1-1211-1-e.pdf>

¹¹ LC Paper No. CB(1)1241/14-15(01)

<http://www.legco.gov.hk/yr14-15/english/panels/dev/papers/dev20150716cb1-1241-1-e.pdf>

Relevant papers

19. A list of relevant papers with their hyperlinks is in **Appendix II.**

Council Business Division 1
Legislative Council Secretariat
20 January 2016

Proposals of the Administration on facilitating the redevelopment of buildings developed under the Civil Servants' Co-operative Building Society Scheme

The three preliminary proposals for the above purpose set out in the Administration's paper submitted to the Panel on Development for discussion at the meeting on 26 May 2015¹² are as follows --

The Hong Kong Housing Society's Pilot Scheme for redevelopment of CBS buildings

2. The Administration and the Hong Kong Housing Society ("HKHS") have initially explored the launch of a pilot scheme to facilitate the redevelopment of CBS buildings by HKHS. The broad terms of the proposed framework are as follows --

- (a) HKHS will launch a pilot scheme to redevelop CBS buildings for subsidized sale flats ("SSF") purpose under a "no loss" principle, and will pay land premium to the Government for lease modification necessary for redevelopment pursuant to existing policy (a "no loss" principle means that in taking on a redevelopment project, HKHS will expect that the gross receipt from the project will at least be capable of paying for all the development and acquisition costs and expenses);
- (b) The scheme will be implemented under a demand-led approach and it will be for the owners themselves to initiate application to HKHS;
- (c) HKHS will lay down the eligibility criteria of the scheme, including the requirement for the applicant CBS flat owners to secure 100% owners' participation within a reasonable period of time, and for site sizes to meet specified requirements so as to achieve development and planning gains;

¹² LC Paper No. CB(1)860/14-15(06)

<http://www.legco.gov.hk/yr14-15/english/panels/dev/papers/dev20150526cb1-860-6-e.pdf>

- (d) HKHS will pay to the Lands Department ("LandsD") the two-thirds outstanding land premium the CBS owners owe the Government under the assignments of their CBS flats. HKHS will also purchase the CBS flats from the owners at market price. Under the "no loss" principle, HKHS may offer an acquisition price slightly above the market price (for example, about 10% above market) for acquisition of these CBS flats; and
- (e) Where circumstances permit, the Administration may consider allowing the owners concerned to purchase the HKHS units from the "Flat-for-sale Scheme Secondary Market".

3. The proposed pilot scheme may provide another channel for the CBS flat owners to dispose of their flats at a price slightly above the market price and to have a chance to purchase an HKHS "Flat-for-sale Scheme" unit from the Secondary Market if they have such a need. Furthermore, the supply of subsidized sale flat to the community may be increased after the redevelopment of the CBS sites. The Administration will invite HKHS to devise details of the scheme.

Facilitating Services (Pilot Scheme) by the Urban Renewal Authority

4. The Administration will suggest to URA for it to designate a queue for applications for facilitation from CBS flat owners. For CBS flat owners who have secured the consent of owners holding 50% or more of the property interests of the CBS buildings, they may apply to URA for facilitation service under the Facilitating Services (Pilot Scheme). Through URA's assistance, once the owners have assembled 80% or more of the property interests of the site, a joint sale of their properties to private developers for redevelopment will be arranged.

Administrative arrangements to be put in place by the Lands Department to facilitate premium payment applications

5. The Administration will ask LandsD to consolidate the existing procedures to enable developers interested in acquiring the property interests from CBS owners and redeveloping the CBS buildings to, with authorization from the CBS flat owners, apply to LandsD for lease modification and ascertain the amount to be paid to settle the outstanding two-thirds land premium the owners owe the Government and the amount payable for lease modification to redevelop the site. This will facilitate the private developers in making their own assessment on the redevelopment proposal.

**Redevelopment of buildings developed under
the Civil Servants' Co-operative Building Society Scheme**

List of relevant papers

Date	Meeting/Event	References
23 January 2013	Council	Hansard -- oral question (No. 4) on redevelopment of quarters developed by civil servants' cooperative building societies (p. 5049 - p. 5060) http://www.legco.gov.hk/yr12-13/english/cou/nmtg/hansard/cm0123-translate-e.pdf
23 January 2013	Council	Hansard -- written question (No. 16) on quarters developed by civil servants' cooperative building societies (p. 5153 - p. 5163) http://www.legco.gov.hk/yr12-13/english/cou/nmtg/hansard/cm0123-translate-e.pdf
11 April 2013	--	The Administration's information paper to the Panel on Development on civil servants' cooperative building society scheme (LC Paper No. CB(1)849/12-13(01)) http://www.legco.gov.hk/yr12-13/english/panels/dev/papers/devcb1-849-1-e.pdf
28 May 2013	Panel on Development	Minutes of meeting (LC Paper No. CB(1)56/13-14) http://www.legco.gov.hk/yr12-13/english/panels/dev/minutes/dev20130528.pdf
15 July 2013	Panel on Development	Minutes of meeting (LC Paper No. CB(1)282/13-14) http://www.legco.gov.hk/yr12-13/english/panels/dev/minutes/dev20130715.pdf The Administration's written response to the motion passed at the meeting on

Date	Meeting/Event	References
		<p>15 July 2013 (LC Paper No. CB(1)1721/12-13(01)) http://www.legco.gov.hk/yr12-13/english/panels/dev/papers/dev0715cb1-1721-1-e.pdf</p>
18 March 2015	Council	<p>Hansard -- written question (No. 10) on redevelopment of buildings developed under civil servants' cooperative building society scheme (p. 7323 - 7325) http://www.legco.gov.hk/yr14-15/english/counmtg/hansard/cm20150318-translate-e.pdf</p>
26 May 2015	Panel on Development	<p>Administration's paper on facilitating the redevelopment of buildings under the Civil Servants' Co-operative Building Societies Scheme (LC Paper No. CB(1)860/14-15(06)) http://www.legco.gov.hk/yr14-15/english/panels/dev/papers/dev20150526cb1-860-6-e.pdf</p> <p>Minutes of meeting (LC Paper No. CB(1)1212/14-15) http://www.legco.gov.hk/yr14-15/english/panels/dev/minutes/dev20150526.pdf</p>
3 June 2015	Council	<p>Hansard -- written question (No. 21) on pilot scheme for redevelopment of Civil Servants' Co-operative Building Societies (p. 12357 - 12365) http://www.legco.gov.hk/yr14-15/english/counmtg/hansard/cm20150603-translate-e.pdf</p>
16 July 2015	Panel on Development	<p>Minutes of meeting (LC Paper No. CB(1)1307/14-15) http://www.legco.gov.hk/yr14-15/english/panels/dev/minutes/dev20150716.pdf</p> <p>The Administration's written response to the motion passed at the meeting on 16 July 2015 (LC Paper No. CB(1)1241/14-15(01))</p>

Date	Meeting/Event	References
		<p>http://www.legco.gov.hk/yr14-15/english/papers/dev/papers/dev20150716cb1-1241-1-e.pdf</p> <p>Administration's follow up paper (LC Paper No. CB(1) 1211/14-15(01))</p> <p>http://www.legco.gov.hk/yr14-15/english/papers/dev/papers/dev20150716cb1-1211-1-e.pdf</p>