

For discussion
on 28 March 2017

LEGISLATIVE COUNCIL PANEL ON DEVELOPMENT

Encouraging Property Owners to Participate in Smart Tender Scheme

PURPOSE

This paper briefs Members on the Budget initiative to allow property owners to participate in the Urban Renewal Authority's (URA) "Smart Tender" Building Rehabilitation Facilitation Services scheme at a concessionary rate.

BACKGROUND

2. It is Government's policy to promote proper repair and maintenance of private buildings by its owners. This is increasingly important in view of Hong Kong's ageing building stock, with about one in every two buildings projected to be reaching 50 years of age by 2046. However, due to their lack of technical expertise, many property owners find the relevant procedures for undertaking repair and maintenance works of their buildings daunting. This has to some extent discouraged them from carrying out necessary repair and maintenance works. This will in turn have long-term repercussions in terms of heightened risks posed by building safety incidents.

3. In line with its statutory role in promoting building maintenance¹, and having regard to its vast experience in administering various assistance schemes on building maintenance for property owners², the URA launched the Smart Tender scheme in May 2016 to strengthen technical assistance and professional advice to property owners for carrying out building repair and maintenance works. Under Smart Tender, the URA provides the following services to participating owners' organisations –

¹ The URA is a statutory body formed under the Urban Renewal Authority Ordinance (Cap. 563). One of the URA's purposes in the Ordinance is to "prevent the decay of the built environment of Hong Kong by promoting the maintenance and improvement of individual buildings". This is reaffirmed in the 2011 Urban Renewal Strategy, which states that "the URA will promote rehabilitation of buildings in need of repair as one of its core businesses and provide technical and financial assistance to owners in order to promote proper maintenance of buildings".

² The URA has been implementing a number of schemes to assist owners in carrying out building repairs and maintenance works, such as Operation Building Bright and the Integrated Building Maintenance Assistance Scheme.

- (a) provides them with a set of “DIY tool-kits” to guide them in organising building repair and maintenance works. The tool-kits include guidelines and pro-forma documents to facilitate the proper procurement of contractors for undertaking the works and consultants for overseeing the works, as well as other tips and instructions;
- (b) lines up an independent third-party advisor to offer advice to them covering the general scope of works needed to be carried out and an estimate on the cost of such works. On the basis of the advice, they may then assess whether the tender prices received for the works are reasonable; and
- (c) makes available an electronic tendering platform for them to conduct the tendering exercise for engaging contractors. By inviting and receiving expressions-of-interest and issuing tender documents through the electronic tendering platform and keeping the identity of interested tenderers anonymous until tender opening, the risk of the tendering process being manipulated or interfered by axe-grinders can be reduced.

4. At present, participating owners’ organisations have to pay the URA a fee which is determined by the number of domestic and non-domestic units (excluding car parking spaces) and the average annual rateable value of the domestic units in the subject building(s). The fee ranges from \$25,000 to \$160,000 per application, which reflects partly the cost incurred by the URA in providing the service. More details on Smart Tender are at **Annex**.

5. Since October 2016, the eligibility criteria of Smart Tender have been expanded and relaxed to cover all private residential / composite buildings in Hong Kong, regardless of the building age and the average rateable value. Up to 22 February 2017, the URA has received a total of 48 valid applications for participating in Smart Tender, among which 39 applications have been approved so far, involving 20 235 residential units.

ENCOURAGING PROPERTY OWNERS TO PARTICIPATE IN SMART TENDER

6. We consider that Smart Tender is an effective tool to help instil confidence in property owners for carrying out building repair and maintenance works and to complement the efforts by other departments and agencies in minimising the risk of bid-rigging for such works. That said, we understand that some property owners are still reluctant to participate in Smart Tender due to cost or other considerations, such that projects participating in the scheme currently only constitute a relatively small percentage of all building repair and maintenance projects being undertaken by property owners.

7. To help more property owners secure the necessary technical support in carrying out building maintenance works, we have included a commitment of \$300 million in the 2017-18 draft Estimates to allow property owners to participate in Smart Tender at a concessionary rate. The aim is to encourage more property owners to take up Smart Tender with a view to creating a critical mass of Smart Tender participants, which will not only cultivates the best practices in undertaking building repair and maintenance projects, but also help crowd out the opportunity for bid-rigging syndicates to interfere with the building repair and maintenance markets.

Proposed concessionary rate

8. As mentioned above, owners' organisations participating in Smart Tender currently have to pay a fee ranging from \$25,000 to \$160,000 per application. We will adopt the following tiered approach in determining the concessionary fee payable by the participating owners' organisations –

Tier	Average Annual Rateable Value of the Domestic Units in Subject Building⁽¹⁾	Current Fee (per owners' organisation)⁽²⁾	Concessionary Fee (per owners' organisation)⁽²⁾
1	Less than \$120,001 (Urban) or \$92,001 (N.T.)	\$25,000 - \$75,000	\$1,250 - \$3,750 (5% of current fee)
2	Between \$120,001 to \$300,000 (Urban) or \$92,001 to \$160,000 (N.T.)	\$50,000 - \$160,000	\$10,000 - \$32,000 (20% of current fee)
3	Over \$300,000 (Urban) or \$160,000 (N.T.)		\$25,000 - \$80,000 (50% of current fee)

Note (1) Urban – Hong Kong Island, Kowloon, Sha Tin, Kwai Tsing and Tsuen Wan; N.T. – New Territories excluding Sha Tin, Kwai Tsing and Tsuen Wan.

Note (2) Depending on the number of units.

9. We expect that participants of Smart Tender will mostly be domestic or composite buildings over 30 years old. Currently, there are around 21 000 such buildings which will be potential beneficiaries of the proposed scheme. Among them, some 90% fall under Tier 1 or Tier 2 above.

IMPLEMENTATION PLAN

10. We will partner with the URA in the implementation of Smart Tender at a concessionary rate. Under the partnership arrangement, in particular, the URA will continue to be responsible for the administration of the scheme. URA will continue to bear the general administrative cost such as legal cost and auditor fee and URA staff cost for the scheme. The URA will also maintain its current commitment with respect to the out-of-pocket expenses to be incurred under the scheme (e.g. the cost of engaging independent third-party advisors to offer advice to the participating owners' organisations) for the first 100 cases³. On the Government's side, we will make use of the \$300 million government funding to reimburse the URA the concession to be offered to owners' organisations on an accountable basis. Further, as we expect that the concessionary rate will attract more owners' organisations to participate in Smart Tender, the URA may need to incur additional out-of-pocket expenses for engaging service providers to handle the increased caseload, viz. cases beyond the first 100 cases in a year. We will reimburse the URA such additional out-of-pocket expenses on an accountable basis.

11. The Government's financial contribution to the scheme will depend on the caseload and the number of participating buildings in different tiers. On the basis of a ballpark estimate of \$100,000 per case, the \$300 million government funding can benefit around 3 000 owners' organisations (or around 4 500 buildings as one application may cover more than one building) over a period of five years.

12. We will disburse the \$300 million government funding to the URA by installments on an accountable basis. The URA will open a separate bank account for keeping the funding and any interests generated will be ploughed back to the scheme. The URA will be required to regularly submit progress reports on, inter alia, the number of successful applications, the amount of concession reimbursed to the URA, the amount of additional out-of-pocket expenses paid by the URA and such other information as required by the Government. The URA will also arrange to conduct audit

³ It is URA's target under the scheme to cater for 100 Smart Tender applications per year irrespective of availability or not the \$300 million government funding.

checks of its accounts and operations. An independent auditor will conduct an annual audit on the accounts of the scheme. The detailed terms of partnership agreement between the Government and the URA will be stipulated in a memorandum of understanding to be signed between the two parties.

WAY FORWARD

13. Subject to the passage of the Appropriate Bill 2017, we target to implement the concessionary rate in the third quarter of 2017.

ADVICE SOUGHT

14. Members are invited to offer their comments on the above.

Development Bureau
March 2017

“Smart Tender” Building Rehabilitation Facilitation Services

Scope of services

The services provided by the URA include –

- (a) “DIY tool-kits” – It includes standard templates for the procurement of the Authorized Person (AP) / Registered Inspector (RI) and Registered General Building Contractor (RGBC), recommendations and the compulsory terms and conditions, along with other relevant guidelines and points to note in organizing and managing the building rehabilitation works;
- (b) to arrange the Independent Professional (IP) for the successful applicant. The IP will provide professional and technical advice on building rehabilitation works in different stages of the Services as stipulated in the service agreement and tripartite agreement. The IP also provides a cost estimate to the related work items;
- (c) to arrange the IP for providing comments on the Condition Survey Report, Tender Document, Cost Estimate and Tender Analysis Report prepared by the AP / RI;
- (d) to act as an agent of the Applicant to facilitate the use of electronic tendering platform for the procurement of RGBC; and
- (e) To act as an agent of the Applicant to appoint the Certified Public Accountant (or Independent Professional) for the administration and supervision of the tender opening process.

Service Charge

The service is fee-charging, aiming to recover part of the operating costs. The service charge is determined as follows –

		Service Charge (HK\$)	
Building Group		Category 1	Category 2
1	400 Units or below	50,000	25,000
2	401-800 Units	100,000	45,000
3	801-1200 Units	130,000	60,000
4	1201 Units or more	160,000	75,000
Note:	The number of units is the summation of domestic and non-domestic units (excluding car park spaces) stated either in the Occupation Permits(s) (OP(s)) or Deed of Mutual Covenant(s) (DMC(s)) for the subject building /estate under the application, whichever is higher; and if the number of units can neither be precisely derived from the OP nor the DMC, records at the Land Registry provided by the applicant will form a basis for determination of number of units.		

<p><u>Service charge for Category 1 application:</u> The average annual ratable value for domestic unit is \$120,001 or above (Urban) / \$92,001 or above (N.T.)</p> <p><u>Service charge for Category 2 application:</u> The average annual ratable value for domestic unit is \$120,000 or below (Urban) / \$92,000 or below (N.T.)</p> <p>*Urban – Hong Kong Island, Kowloon, Sha Tin, Kwai Tsing and Tsuen Wan; N.T. – New Territories excluding Sha Tin, Kwai Tsing and Tsuen Wan</p>

Work flow

Workflow of the Services

The workflow of the Services is as follows:

