

For discussion
on 31 March 2009

**LEGISLATIVE COUNCIL
PANEL ON DEVELOPMENT**

Operation Building Bright

PURPOSE

This paper seeks Members' comments on the proposal to implement a \$1-billion "Operation Building Bright" (the Operation) at a non-recurrent government expenditure of \$700 million, together with a contribution of \$150 million each from the Hong Kong Housing Society (HKHS) and Urban Renewal Authority (URA), to assist owners of about 1,000 old buildings to carry out repair works 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 workers displaced from other places return to Hong Kong. According to the 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. At the same time, with the economic slowdown and rising unemployment, it is likely that owners of old and dilapidated buildings would have added financial difficulties in carrying out maintenance and repair works. This will not only jeopardise the safety condition of such old buildings, but also further reduce job opportunities for workers in the repair and maintenance field. There have been widespread suggestions from the 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.

3. The experience of the HKHS and URA in the implementation of various assistance schemes to promote building maintenance and repair 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 non-cooperating 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 of 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.

OPERATION BUILDING BRIGHT

Objective

4. To achieve the dual objective of creating more job opportunities in the decoration and maintenance sector of the construction industry as well as promoting building safety and improving the cityscape and living environment, we propose to launch a one-off, special operation to provide targeted financial support to owners of old and dilapidated buildings to carry out voluntary repair and maintenance works, and where owners are unable to organise repair works by themselves, BD will take complementary actions to mandate such works. The operation will be “building-based”, with objective criteria established to efficiently identify target buildings.

5. With the above objective in mind, as a specific measure for “Preserving Jobs”, the Financial Secretary announced in the 2009-10 Budget that the Government, in collaboration with the HKHS and URA, will 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.

6. The primary objective of the Operation is to create a large number of job opportunities for the construction industry, particularly in the field of decoration and maintenance works, within a short period of time. 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.

7. 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 maintenance and repair through legislation and various technical and financial assistance schemes to ensure building safety in Hong Kong. For example, we will shortly table 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 to introduce the mandatory building and window inspection schemes into the Council 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.

8. In order to reap quick benefits, the Operation is “building-based”. We will streamline the modus operandi and do away with complicated procedures. 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 the need for individual owners to undergo asset or income means tests. Regarding buildings having difficulties in coordinating repair works, such as buildings without OCs, the BD will get directly involved by serving statutory repair orders. If the orders are not complied with, the BD will directly arrange contractors to carry out repair works, and recover the costs from the owners after deducting the subsidies they are eligible for afterwards.

9. The detailed modus operandi of the Operation is set out in ensuing paragraphs.

Target Buildings

10. 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 maintenance or repair works (examples include buildings subject to statutory orders issued by the BD).

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

11. Target buildings will be divided into two categories –
- (a) Category 1 covers buildings with OCs. They will be invited to submit applications for grants under the Operation to carry out voluntary repair works. The HKHS and URA will provide technical advice and assistance; and
 - (b) Category 2 covers buildings having difficulties in coordinating repair works, such as buildings without OCs. The BD, HKHS and URA will proactively select these buildings in consultation with the District Councils.

Amount of Grant

12. There will not be asset or income means tests. All owners of target buildings (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.

13. In case the grant under the Operation is not sufficient to fully cover the cost of repair, owners may apply for further assistance from the Comprehensive Building Safety Improvement Loan Scheme administered by the BD. Eligible elderly owner-occupiers may also apply for a grant from the \$1-billion Building Maintenance Grant Scheme for Elderly Owners administered by the HKHS.

Use of Grant

14. The grant must be used for repair works in common areas of target buildings. It should first be used for repair works in common areas relating to improvement of building structural safety and 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) maintenance works in association with the works in (a) to (d) 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.

15. After covering the cost of works stated in paragraph 14 above, any remaining grant may be used for other repair and improvement works in the common areas, including –

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

16. The OCs of Category 1 buildings must appoint authorized 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).

17. The grant is not applicable to works with contracts already awarded to contractors before 25 February 2009. Nevertheless, owners of eligible buildings may apply for grants under the Operation to carry out other works which 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 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.

18. Repetition of the same items of repair works which had been completed in the last five years is not eligible for grant under the Operation, unless such works have become dilapidated again.

Proposed Implementation Schedule

19. With Members' support, we will shortly seek the approval of the Finance Committee for funding. Subject to approval of funding, we aim to launch the Operation in May 2009 at the earliest.

Category 1 Buildings

20. OCs of eligible buildings may apply for grants under the Operation. 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 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 are distributing information pamphlets to these OCs by mail. HKHS, URA and HAD are also approaching individual OCs to inform them about the Operation and to encourage them to make preparations to apply to join the Operation.

21. 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 coordinate the repair works and qualified contractors to commence the works within a specified period. The 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 works of the buildings and provision of funding to the OCs.

Category 2 Buildings

22. Regarding Category 2, the BD, HKHS and URA will together select buildings having difficulties in coordinating 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 the BD. For buildings the owners of which are unwilling or unable to voluntarily conduct repair works, the 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, the 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.

FINANCIAL IMPLICATIONS

23. We will provide the capital injection to the HKHS and URA by installments. The HKHS and URA will respectively open a separate bank account for keeping the fund and allocating grants to target buildings. They will be responsible for the management of the fund and will be required to regularly submit progress reports and audit reports. The HKHS and URA will together employ about 50 additional professional and technical staff to assist owners of selected buildings to identify and implement the repair and maintenance works. The associated staffing costs will be absorbed by the HKHS and URA. The BD will meet the staffing requirements from within its existing resources. Only out-of-pocket expenses will be charged to the overall \$1-billion funding, including legal costs, auditor's fees and costs for publicity activities. The detailed terms of cooperation among the Government, HKHS and URA will be stipulated in a memorandum of understanding to be signed among the three parties.

ADVICE SOUGHT

24. 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. We therefore propose to shortly seek the Finance Committee's approval of a non-recurrent commitment of \$700 million, for the Operation to be implemented in May 2009 at the earliest.

Development Bureau
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