

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 commitment from \$1.7 billion by \$500 million to \$2.2 billion under Head 138 – Government Secretariat: Development Bureau (Planning and Lands Branch) Subhead 700 General non-recurrent Item 865 Operation Building Bright.

PROBLEM

There is a need to increase the approved commitment for implementing Operation Building Bright (the Operation) to assist more owners in the maintenance of their aged buildings.

PROPOSAL

2. The Secretary for Development proposes to inject an additional funding of \$500 million into the Operation.

JUSTIFICATION

The Operation and Progress To Date

3. As a special measure for “preserving jobs” amidst the 2008 financial tsunami, the Government, in collaboration with the Hong Kong Housing Society (HKHS) and Urban Renewal Authority (URA), launched the \$2-billion Operation

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to provide subsidies and one-stop technical assistance to help owners of old and dilapidated buildings to carry out repair and maintenance works. The one-off Operation aims to achieve the dual objectives of creating more job opportunities for the construction sector amidst the financial tsunami as well as improving safety and maintenance of old buildings. The Finance Committee (FC) approved via two applications a total allocation of \$1.7 billion for the Government's contribution to the Operation, while the remaining \$300 million is contributed by the HKHS and URA on an equal sharing basis.

Encl. 1 4. The Operation caters for the following two categories of target buildings, subject to meeting the eligibility criteria in Enclosure 1 –

- (a) Category 1 covers buildings with owners' corporations (OCs) established. OCs of eligible buildings may apply for joining the Operation to carry out repair works on a voluntary basis. We conducted a computer ballot in June 2009 to determine the priority for processing the applications of eligible buildings.
- (b) Category 2 covers buildings whose owners have difficulties in co-ordinating repair works, such as buildings without OCs. Depending on the circumstances, the Buildings Department (BD) will issue statutory repair orders to such buildings to effect the necessary repair works. If the owners of the buildings are unwilling or unable to conduct repair works by themselves, the BD will arrange consultants and contractors to carry out the works in default of the owners' action. After deducting the amount of subsidies available under the Operation, the BD will recover the remaining repair costs (including supervision charges) from the owners. However, if the owners or OCs of the buildings are willing to organise repair works voluntarily, they could follow the approach for Category 1 target buildings to carry out repair works.

5. With the budget of \$2 billion, our target was to assist about 2 000 target buildings and create around 20 000 job opportunities for construction and maintenance workers as well as related professionals and technicians.

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Category 1 Target Buildings

6. We have in total received 1 128¹ applications for Category 1 target buildings, among which 1 014 applications meet the eligibility criteria or have not been withdrawn by the applicants. We have followed the priorities accorded by the computer ballot conducted in June 2009 to process the eligible applications in an orderly manner. Up to 31 May 2010, 1 010 Category 1 target buildings were granted with “approvals-in-principle” and were in different stages of work ranging from selection and appointment of authorised persons to conduct of building survey and preparation of tender documents for selection and appointment of contractors, etc. Amongst these buildings, 102 are undergoing repair works, and the works of another 21 buildings have generally been completed. The HKHS and URA are planning to grant “approvals-in-principle” to the remaining four applications shortly.

Category 2 Target Buildings

7. Up to 31 May 2010, 639 buildings were selected as Category 2 target buildings. They are generally dilapidated buildings with defaulted statutory orders or put forth by the Legislative Council (LegCo) and District Council (DC) Members. Broadly speaking, there are two types of arrangement for this category of buildings –

- (a) for buildings where owners or OCs are not capable of organising repair works by themselves and need the BD to arrange the works, repair works have commenced in 110 of them and generally completed for another 78 buildings; and
- (b) for buildings where owners or OCs are willing to organise repair works, “approvals-in-principle” have been granted to 83 buildings so far, with repair works already commenced in 26 of them and generally completed for another eight of them.

8. The BD, in collaboration with the HKHS and URA, will continue to consult the owners of the remaining 368 buildings to ascertain if they are prepared to organise repair works by themselves, and will gradually arrange to carry out repair works for those buildings where the owners are unable to do so.

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

9. In summary, a total of 107 buildings in Categories 1 and 2 have completed repair works, and 238 buildings have repair works underway. Another 936 buildings with “approvals-in-principle” granted will commence repair works upon completion of the procurement procedures. In addition, the HKHS, URA and BD are liaising with the owners of another 368 Category 2 buildings with a view to assisting them with the repair works or carrying out the works on their behalf. There are four Category 1 applications being processed by the HKHS and URA. Based on the latest estimation, after completion of repair works for all of the above buildings, there will be around \$300 million of uncommitted funds available out of the \$2 billion for further deployment.

Job Creation

10. The Operation has been effective in creating job opportunities. On average, each target building can generate about 20 job opportunities for building professionals, contractors, technicians, workers, etc. They include job positions for workers employed on individual job basis (e.g. scaffolding) as well as technicians and professionals employed on contract terms for the whole duration of the projects (e.g. planning and supervision of repair projects). Since the launch of the Operation on 7 May 2009, the employment situation of the construction sector has been gradually improving. According to the statistics released by the Census and Statistics Department, comparing the quarterly periods of March-May 2009 with March-May 2010, the unemployment rate of the construction sector decreased from 12.1% to 8.5% and the unemployment rate in the decoration, repair and maintenance for buildings sub-sector decreased from 18.7% to 10.7%. During the same period, the labour force in the decoration, repair and maintenance for buildings sub-sector increased from 66 100 persons to 75 500 persons. The Operation has so far altogether created over 8 100 job opportunities.

Need for Additional Funding

11. After the collapse of the building at 45J Ma Tau Wai Road, Kowloon in January 2010, the BD launched a special territory-wide operation in February 2010 to inspect all private buildings aged 50 or above in the territory. There were 1 032² buildings found to exhibit different extent of disrepair and require statutory enforcement actions under the Buildings Ordinance (Cap 123). Owners of many of these buildings lack proper organisation and management abilities, and they are in need of technical and financial assistance for carrying out repair works to their buildings. In addition, we understand that certain OCs have

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² Amongst these 1 032 buildings, 293 buildings are currently subject to statutory orders. For the remaining 739 buildings, the BD is in the course of issuing repair or investigation orders to them.

missed the deadline of the first round of application in June 2009 and that some building owners who were in the course of establishing OCs could not join last year's Category 1 applications. It is, however, estimated that the remaining uncommitted funding of around \$300 million will not be sufficient to cover the above-mentioned old and dilapidated buildings for carrying out repair works. In order to provide timely assistance to more owners of old and dilapidated buildings to carry out necessary repair works in the wake of the collapse of a building in Ma Tau Wai Road in early 2010, the Financial Secretary (FS) announced in his 2010-11 Budget Speech on 24 February 2010 a plan to earmark additional funding of \$500 million for the Operation. We plan to pool together the remaining funds (i.e. about \$300 million) and the new funds to assist more Category 1 and Category 2 target buildings in carrying out building repair works.

Refinement of Eligibility Criteria

12. We have received views from LegCo and DC Members that there are buildings with a large number of residential units (more than 400) which are in dilapidated conditions and that they should be considered for assistance under the Operation. We have taken into account these views and propose to dispense with the criterion of “no more than 400 residential units” (i.e. criteria (b) in Enclosure 1) so that all old and dilapidated buildings, irrespective of their numbers of residential units, will be eligible to apply to join the Operation. The other eligibility criteria as well as scope of works in Enclosure 1 will remain unchanged. We envisage that the lifting of the “no more than 400 residential units” criterion will have no significant impact on the achievement of the objectives to create jobs and improve building safety. Nevertheless, the total number of target buildings to be subsidised under the Operation may be reduced as buildings with a large number of units will require a larger share of resources.

Number of Buildings to be Assisted

13. The total number of additional buildings to be assisted will depend on the amount of grant required for each additional target building, and that is affected by a number of factors such as the condition of the building, the scope of the repair works to be undertaken, the cost of the repair works involved as well as the number of units and number of elderly owner-occupiers in the building.

14. Based on our experience so far, it is estimated that with the total funding of \$800 million, we may be able to subsidise around 900 target buildings, comprising about 300 Category 1 and 600 Category 2 target buildings. As mentioned earlier, the recent inspection of buildings of 50 years old or over conducted by the BD has identified some 1 000 buildings that may require repair

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actions. Discounting those already included in the Operation and with our preliminary screening, over 600 of these buildings may meet the revised eligibility criteria of the Operation. Some of them may apply to join Category 1. For those owners who could not organise the repair works by themselves, we will consider including them under Category 2. The BD may also include other buildings with repair needs but without organisation power under the Category.

15. With the lifting of the eligibility criterion of “no more than 400 residential units” in the Operation, the total number of buildings to be assisted cannot be precisely estimated. In practice, for Category 1 buildings, the total number of buildings receiving assistance will depend on the priority order obtained (and hence the number of units of buildings in the queue which directly affects the funding required) from the ballot to be conducted. Nevertheless, it remains our aim to make use of all the remaining and new funds to assist as many buildings as possible.

FINANCIAL IMPLICATIONS

Non-recurrent Expenditure

16. In line with the existing arrangements, we propose to provide the additional funding of \$500 million to the HKHS and URA, the administrators of the Operation, by installments. With the additional funding, we propose that the duration of the overall Operation and disbursement of funding to the HKHS and URA should extend until the third quarter of 2013. Based on the existing arrangements, 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 URA. 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, HKHS and the URA will be stipulated in the memoranda of understanding to be signed among the three parties. The BD estimates that some 20 additional temporary contract staff will be necessary to implement repair works for the additional Category 2 target buildings. The one-off staff cost and associated expenses amounting to around \$18 million will continue to be charged to the commitment. The BD has explored whether the additional workload could be absorbed by re-deployment of existing resources but confirmed that its staff are already fully engaged in other duties.

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Recurrent Expenditure

17. The Operation has no additional recurrent financial implications.

IMPLEMENTATION PLAN

18. 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. Each elderly owner-occupier 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.

19. We will allow building owners sufficient lead time to prepare for joining the Operation. Also, taking into account the availability of building professionals and contractors in the market as well as the need to suitably spread out building repair works being conducted in Hong Kong, we propose to invite another round of applications for Category 1 target buildings from 1 September 2010 to 30 October 2010. In line with the prevailing arrangement, eligible applications for joining as Category 1 target buildings will be prioritised by a computer ballot. The BD will separately make preparation for selecting suitable buildings as Category 2 target buildings and will proceed with the implementation as soon as FC has approved the additional funding. We plan to announce further details in August 2010.

20. OCs with repair works contracts for appointment of contractors signed on or after 24 February 2010 (i.e. the date when the FS delivered the 2010-11 Budget Speech) will be allowed to apply for participation in the new round of application provided that their buildings satisfy the revised eligibility criteria and their tendering procedures (including the procedures for appointment of authorised persons and contractors) and the scope of repair works satisfy the prescribed requirements of the Operation. Moreover, the repair works of the respective contracts must be still on-going at the time when the OCs submit applications. Buildings with repair works contracts for appointment of contractors signed before 24 February 2010 or with repair works completed at the time of submitting the applications are not eligible for participation.

Encl. 2

21. The 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 have to follow the tendering requirements and procedures stipulated by the HKHS and URA. The two organisations will assign staff to each building to provide advice and assistance. The modus operandi will continue to follow the guidelines promulgated by the HKHS and URA. Regarding Category 2 buildings, where owners of such buildings are unable to organise repair works by themselves, the BD will continue to take enforcement actions and carry out the works under the Buildings Ordinance. We will also continue to adopt measures to prevent corruption and malpractices in implementation of the Operation. The relevant details are set out in Enclosure 2.

22. The Operation, first launched in May 2009, was one of the Government's special responses to the prevailing 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. We will implement the minor works control regime system, which aims to provide simple and effective statutory procedures for the carrying out of small-scale building works, within 2010. We also introduced legislative proposal for the mandatory building and window inspection schemes into LegCo in January 2010.

PUBLIC CONSULTATION

23. We briefed the LegCo Panel on Development on 26 January 2010 regarding the progress of the original \$2 billion under the Operation. We further updated LegCo of the progress of the Operation and the proposed launch of another round for the Operation at the LegCo Adjournment Debate on 3 February and the LegCo Motion Debates on 3 March and 26 May 2010. We also briefed the LegCo Panel on Development regarding the proposed injection of an additional funding of \$500 million into the Operation on 22 June 2010. Panel Members were supportive of our proposal to inject additional funding and to lift the eligibility criterion of "not more than 400 residential units" for target buildings.

BACKGROUND

24. On 24 April 2009, 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). On 3 July 2009, FC approved, vide FCR(2009-10)33, the injection of additional funding of \$1 billion into the Operation so as to assist more owners of old and dilapidated buildings to carry out

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repair and maintenance works and create more job opportunities, thus increasing the total Government funding for the Operation to \$1.7 billion. The FS announced in the 2010-11 Budget Speech on 24 February 2010 a proposal to allocate additional funding of \$500 million for the Operation to provide timely assistance to more owners of old buildings to repair their properties following the Ma Tau Wai incident.

Development Bureau
June 2010

**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 (this criterion will be dispensed with in processing new applications in the new round, as proposed in paragraph 12 of FCR(2010-11)37);
- (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 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;
- (d) repair of building sanitary services, e.g. repairing, maintaining and replacing defective soil, waste, rainwater, vent pipes and underground drainage; and

¹ 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.

- (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.

**Operation Building Bright
Measures to Prevent Corruption and Malpractice**

Since the launch of the Operation Building Bright (the Operation) in May 2009, the Hong Kong Housing Society (HKHS), Urban Renewal Authority (URA) and Buildings Department have been working in close liaison with the Independent Commission Against Corruption (ICAC) in formulating the application procedures and modus operandi to ensure that proper procedures and safeguards are adopted to prevent corruption and other malpractices in implementation of the Operation. The HKHS and URA have, in consultation with the ICAC, formulated and issued the “Operation Building Bright Maintenance Guidelines” to owners’ corporations (OCs), consultants and contractors, stipulating the requirements and procedures for selection and management of consultants and contractors, anti-bribery and anti-collusion practices, as well as the detailed roles and duties of the parties involved in the repair works under the Operation.

2. The HKHS and URA have also appointed independent professional consultants to carry out the relevant monitoring work, including inspecting the progress of repair works for target buildings and scrutinising the documents and progress reports submitted by consultants and contractors, with a view to ensuring their compliance with the requirements of the Operation before considering to release the grants. Both organisations will arrange staff to attend the OCs’ meetings with a view to providing advice on selection of consultants and contractors and coordination of repair works.

3. If irregularities involving non-compliance of the consultants or contractors with the requirements are noted, the HKHS and URA will advise the OCs to follow up the matters in accordance with their agreed service contracts. Up to end of May 2010, the HKHS and URA had in total issued notices and demanded rectifications for 21 cases with suspected irregularities, among which ten OCs have, after review, decided to terminate the service contracts with their appointed consultants. The HKHS and URA will continue their follow-up actions on the cases.

4. To promote anti-corruption practices in carrying out maintenance works under the Operation, the ICAC has assisted HKHS and URA in conducting anti-corruption seminars for the OCs, consultants and contractors. To further deter corruption, malpractices or anomalies in the use of grants under the Operation, the HKHS and URA, in consultation with ICAC, are formulating procedures to step up inspections to the repair works at target buildings with ICAC’s representatives participating as observers in site audits.
