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Panel on Development

Meeting on 29 March 2011

Updated background brief on Operation Building Bright

Purpose

This paper provides updated background information on the Operation Building Bright ("the Operation") and summarizes the concerns and views expressed by Members during past discussions on the subject.

Background

Funding for the Operation

2. At the meeting of the Panel on Development ("the Panel") on 31 March 2009, the Administration presented a proposal to implement 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. The funding proposal was approved at the Finance Committee ("FC") meeting on 24 April 2009.

3. At the Panel meeting on 23 June 2009, members were briefed on the progress of the Operation and the Administration's proposal to inject an additional funding of \$1 billion into the Operation in view of the high demand. The funding proposal was subsequently approved at the FC meeting on 3 July 2009. The Administration further sought the Panel's support for injection of an additional fund of \$500 million to the Operation and refining the eligibility criteria at the meeting on 22 June 2010. The

funding was approved by FC on 9 July 2010. Thus the budget of the Operation totals to \$2.5 billion.

Targets and scope of the Operation

4. According to the Administration, Legislative Council Members and various stakeholders in the community have suggested that expediting building maintenance is a pragmatic way of creating additional jobs in the construction industry. The experience of HKHS and URA in the implementation of various assistance schemes to promote building maintenance and repair reveals that voluntary maintenance of old buildings is often hampered by the absence of owners' organizations and/or the presence of absentee, elderly, low-income and non-cooperating owners. This situation is more serious for old buildings, buildings with low rateable values, and those without owners' corporations ("OCs").

5. The Operation aims 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. Under the Operation, the Administration in collaboration with HKHS and URA will provide targeted financial support to owners of old and dilapidated buildings to carry out voluntary repair and maintenance works. Where owners are unable to organize repair works by themselves, the Buildings Department ("BD") will take complementary actions to mandate such works.

6. The Operation is "building-based" and 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 average rateable value of the residential units does not exceed \$100,000 per annum for buildings in urban areas, or \$76,000 per annum for buildings in other areas; and
- (c) the buildings lack maintenance or are in dilapidated conditions, requiring repair or maintenance works (examples include buildings subject to statutory orders issued by BD).

7. Target buildings are divided into two categories. Category 1 covers buildings with OCs which may apply for joining the Operation to carry out repair works on a voluntary basis. Category 2 covers buildings

having difficulties in coordinating repair works, such as buildings without OCs. For this category of buildings, BD will issue statutory repair orders so as to effect the necessary repair works. If the owners of the buildings are unwilling or unable to conduct repair works by themselves, BD will arrange consultants and contractors to carry out the works on behalf of the owners. After deducting the amount of subsidies available under the Operation, BD will recover the remaining repair costs (including supervision charges) from the owners. If the owners or OCs of the building are willing to organize repair works voluntarily, they could follow the approach for Category 1 target buildings to carry out repair works.

8. There are no asset or income means tests for financial assistance under the Operation. 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.

9. 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 structural and fire safety of buildings and sanitary facilities. After covering the cost of these works, any remaining grant may be used for other repair and improvement works in the common areas. The details of the two types of works are given in **Appendix I**.

10. With a total budget of \$2.5 billion, the Administration estimated that the Operation should be able to assist over 2 000 target buildings and create over 20 000 job opportunities for construction and maintenance workers as well as related professionals and technicians.

Discussion at the Panel on Development

11. The subject was discussed at the Panel meetings on 31 March 2009, 23 June 2009, 26 January 2010 and 22 June 2010. Panel members in general supported implementation of the Operation to create job opportunities and enhance building safety. The major views and concerns expressed by members are summarized below.

Job creation

12. Some members considered that the Administration should work in collaboration with the relevant trade unions so that unemployed workers

could be recruited to carry out works under the Operation; and that more construction companies should be allowed to participate in the Operation. The Administration responded that workers in the construction sector would benefit from the Operation, which would increase the number of job opportunities in the sector. The Administration had engaged two term contractors for building repair works, each with a contract sum limit of about \$20 million. The Administration would have to engage more contractors to carry out the repair works under the Operation.

13. Noting from the Administration's report at the meeting on 26 January 2010 that 4 700 employment opportunities had so far been created, some members considered that more efforts should be made to increase the number of jobs which was still below the target of 20 000 jobs. Panel members requested the Administration to seek additional resources to continue and expand the scale of the Operation. The Administration advised that building maintenance and repair were primarily the owners' responsibilities. The objective of the Operation was to preserve jobs, and more jobs would come on stream as the Operation progressed. It would be inappropriate for the Government to subsidize private property owners on a long-term basis. Besides, schemes such as the Building Maintenance Grant Scheme for Elderly Owners and the loan and incentive schemes of HKHS and URA were available for property owners with financial difficulties to cover expenses arising from maintenance and repair works for their flats.

Scope of the Operation and eligibility criteria of the Operation

14. Some members suggested that the Administration should review the list of priority items to include the clearance of unauthorized building works ("UBWs") and repair of defective fire safety installations. The Administration advised that if UBWs in common areas were to be included as priority items, the progress of other repair works of a higher priority would be affected. UBWs would generally be handled according to the existing policy, and OCs could remove UBWs on their own initiative and the Administration would coordinate with them as far as possible. At the suggestion of members, the Administration subsequently included "repair of defective fire safety constructions, and fire service installations and equipment of buildings" as a priority item.

15. There was also suggestion from members that buildings which were less than 30 years old but in highly dilapidated conditions should be included in the Operation. If there were still uncommitted funds available, the Administration should make use of part of such remaining

funds to accept new applications for Category 1 target buildings. The Administration advised that it would report to the Panel on the latest expenditure of the Operation to see whether funds were still available and whether there was room to adjust the eligibility criteria.

Assistance to OCs and owners

16. Panel members suggested that the names of approved contractors should be made available to OCs for easy reference and measures should be in place to properly monitor the works and to prevent the hiring of illegal workers. The Administration should also effectively monitor the tendering procedures of OCs to prevent malpractices, and provide comprehensive advice to OCs in respect of various building maintenance subsidy schemes. The Administration advised that a list of authorized persons and approved general contractors had been prepared for OCs' reference. Eligible OCs had to choose at least four contractors from the list when inviting tenders to minimize the possibility of corruption. OCs also had to engage consultancy firms with authorized persons to monitor the repair works to ensure that the works were in order. The authorized persons engaged by OCs had to certify relevant documents such as inspection reports, tender analyses, works contracts, certificates for disbursement of funds and certificates of completion to ensure the quality of the repair works. Consultants of HKHS and URA would monitor the repair works from their commencement to completion and vet those documents during the whole process before releasing the grants under the Operation.

17. At the Panel meeting on 22 June 2010, members noted with concern that by 31 May 2010, HKHS and URA had issued notices and demanded rectifications for 21 cases with suspected irregularities, among which 10 OCs had decided to terminate service contracts with their appointed consultants. They enquired whether Independent Commission Against Corruption ("ICAC") had initiated any prosecution against malpractice and what preventive measures would be introduced by the Administration. Members also expressed concern about the quality and integrity of the OC office bearers and their lack of knowledge on good building management. They urged the Administration to provide more training and public education programmes to OC office bearers. Representatives of HKHS and URA advised that, in consultation with ICAC, the two bodies had issued the "Operation Building Bright Maintenance Guidelines" to 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. Moreover, ICAC was exploring an intervention approach to curb corruption practices, and staff of HKHS and URA had relevant training on ways to deal with malpractices and suspected corruption in the tendering process.

18 To facilitate the selection of service providers by OCs for carrying out repair works, members also suggested conducting surveys on performance of approved persons and contractors to collect feedback on the repair/maintenance works carried out under the Operation. The results could be released through suitable platforms to provide reference for other property owners and OCs. The Administration agreed to examine the suggestion.

19. Panel members have expressed concern about the ongoing management and maintenance of the Category 2 target buildings after the Operation. In the absence of an OC, it would be difficult for owners to properly manage and maintain their buildings. Some members suggested that HKHS, social enterprises, professional institutes or accredited professionals could be engaged to undertake management and maintenance of these buildings. There was also suggestion from members putting in place a mandatory requirement for property owners to engage professional building management company for each building to ensure proper management and regular maintenance of the building.

Discussion at the Finance Committee

20. When the funding proposals for the Operation were discussed at the FC meetings on 24 April 2009 and 3 July 2009, some members enquired about the criteria/mechanism for according priorities to eligible target buildings, the basis for determining the levels of subsidy, and whether it was permissible to carry out beautification works for target buildings. The Administration responded that its intention was to cover as many buildings as possible by fully utilizing the \$2 billion provision. The Administration had followed the priorities accorded by the computer ballot held in June 2009 to gradually process the eligible applications. The selection of Category 2 buildings had been jointly made by a steering committee comprising representatives of BD, HKHS and URA in consultation with the District Councils. As regards the levels of subsidy, the Administration advised that the ceiling of \$16,000 was worked out on the basis of an 80% subsidy for the estimated average repair cost of \$20,000 for each owner of an eligible building. The subsidy level of

\$40,000 for elderly owners aged 60 or above was modelled on the rate approved for the Building Maintenance Grant Scheme for Elderly Owners. The Operation also allowed some beautification works arising from the repair works.

21. On members' concern about possible corruptive practices and tender-rigging, the Administration advised that a three-pronged approach would be adopted to prevent such practices under the Operation. The staff of HKHS and URA would inspect every selected building and provide advice on procedures and requirements, scope of maintenance works required, preparation of tender documents, tender assessment, and appointment of authorized persons and contractors. OCs concerned would be required to follow the tender procedures and invite a sufficient number of contractors to bid for the works in order to ensure open and fair competition.

22. At the FC meeting on 9 July 2010, Members urged the Administration to consider providing more funding to the Operation, relaxing the eligibility criteria, and waiving the ceiling of subsidy of \$40,000 for elderly owner-occupiers with less financial means to cover the full cost of repair works. In respect of financial assistance for elderly owner-occupiers to maintain their property, the Administration advised that in addition to the Operation, these owners can apply for a maximum grant of \$40,000 under the Building Maintenance Grant Scheme for Elderly Owners. In other words, an elderly owner-occupier can obtain a maximum of \$80,000 subsidy for meeting the maintenance cost of the same flat.

Council questions

23. Members have raised a number of questions relating to the Operation at Council meetings during the 2009-2010 and 2010-2011 sessions. The details are provided in the hyperlinks shown in **Appendix II**.

Latest development

13. In the 2011-2012 Budget Speech released on 23 February 2011, the Financial Secretary proposed to allocate an additional \$1 billion for the Operation. The Administration forecasts that the Operation will

eventually provide financial assistance for the repair and maintenance of over 3 000 buildings aged 30 years or above and created more than 60 000 employment opportunities related to the construction industry.

25. The Administration will brief the Panel on the latest progress of the Operation at its meeting on 29 March 2011.

Relevant papers

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

Council Business Division 1
Legislative Council Secretariat
23 March 2011

Appendix I

Use of grants under the Building Operation Bright

The grant 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.

Maintenance works in association with the works in (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.

After covering the cost of works stated in the paragraph above, any remaining grant may be used for additional repair and improvement works in the common areas, including --

- (a) removal of unauthorized 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 (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.

(Source: Discussion paper FCR(2010-11)37 for Finance Committee meeting on 9 July 2010)

Operation Building Bright

List of relevant papers

Council/Committee	Date of meeting	Paper
Panel on Development	31 March 2009	<p>Administration's paper on Operation Building Bright (LC Paper No. CB(1)1125/08-09(03)) http://www.legco.gov.hk/yr08-09/english/panels/dev/papers/dev0331cb1-1125-3-e.pdf</p> <p>Administration's paper on Operation Building Bright (Speaking note of the Secretary for Development) (LC Paper No. CB(1)1204/08-09(02)) (Chinese version only) http://www.legco.gov.hk/yr08-09/chinese/panels/dev/papers/dev0331cb1-1204-2-c.pdf</p> <p>Administration's paper on Operation Building Bright (Flowchart) (LC Paper No. CB(1)1204/08-09(03)) (Chinese version only) http://www.legco.gov.hk/yr08-09/chinese/panels/dev/papers/dev0331cb1-1204-3-c.pdf</p> <p>Administration's paper on Operation Building Bright (Leaflet) (LC Paper No. CB(1)1204/08-09(04)) http://www.legco.gov.hk/yr08-09/english/panels/dev/papers/dev0331cb1-1204-4-e.pdf</p> <p>Minutes of meeting (LC Paper No. CB(1)1964/08-09) http://www.legco.gov.hk/yr08-09/english/panels/dev/minutes/dev20090331.pdf</p>

Council/Committee	Date of meeting	Paper
Finance Committee	24 April 2009	Administration's paper on Operation Building Bright (FCR(2009-10)3) http://www.legco.gov.hk/yr08-09/english/fc/fc/papers/f09-03e.pdf Minutes of meeting (LC Paper No. FC146/08-09) http://www.legco.gov.hk/yr08-09/english/fc/fc/minutes/fc20090424.pdf
Panel on Development	23 June 2009	Administration's paper on Operation Building Bright - Progress and Update (LC Paper No. CB(1)1947/08-09(07)) http://www.legco.gov.hk/yr08-09/english/panels/dev/papers/dev0623cb1-1947-7-e.pdf Minutes of meeting (LC Paper No. CB(1)2515/08-09) http://www.legco.gov.hk/yr08-09/english/panels/dev/minutes/dev20090623.pdf
Finance Committee	3 July 2009	Administration's paper on Operation Building Bright (FCR(2009-10)33) http://www.legco.gov.hk/yr08-09/english/fc/fc/papers/f09-33e.pdf Minutes of meeting (LC Paper No. FC10/09-10) http://www.legco.gov.hk/yr08-09/english/fc/fc/minutes/fc20090703a.pdf
Council meeting	6 January 2010	A written question on "Operation Building Bright" raised by Hon LEE Wing-tat http://www.info.gov.hk/gia/general/201001/06/P201001060124.htm

Council/Committee	Date of meeting	Paper
Panel on Development	26 January 2010	Administration's paper on Operation Building Bright - Progress and Update (LC Paper No. CB(1)930/09-10(05)) http://www.legco.gov.hk/yr09-10/english/panels/dev/papers/dev0126cb1-930-5-e.pdf Background brief on "Operation Building Bright" prepared by the Legislative Council Secretariat (LC Paper No. CB(1)930/09-10(06)) http://www.legco.gov.hk/yr09-10/english/panels/dev/papers/dev0126cb1-930-6-e.pdf Minutes of meeting (LC Paper No. CB(1)1508/09-10) http://www.legco.gov.hk/yr09-10/english/panels/dev/minutes/dev20100126.pdf
Council meeting	24 February 2010	A written question on "Operation Building Bright" raised by Hon TAM Yiu-chung http://www.info.gov.hk/gia/general/201002/24/P201002240215.htm
Council meeting	14 April 2010	A written question on "Operation Building Bright" raised by Hon CHEUNG Hok-ming http://www.info.gov.hk/gia/general/201004/14/P201004140201.htm

Council/Committee	Date of meeting	Paper
Panel on Development	22 June 2010	<p>Administration's paper on Operation Building Bright – Progress and Update (LC Paper No. CB(1)2247/09-10(03)) http://www.legco.gov.hk/yr09-10/english/panels/dev/papers/dev0622cb1-2247-3-e.pdf</p> <p>Background brief on Operation Building Bright prepared by the Legislative Council Secretariat (LC Paper No. CB(1)2247/09-10(04)) http://www.legco.gov.hk/yr09-10/english/panels/dev/papers/dev0622cb1-2247-4-e.pdf</p> <p>Minutes of meeting (LC Paper No. CB(1)2808/09-10) http://www.legco.gov.hk/yr09-10/english/panels/dev/minutes/dev20100622.pdf</p>
Finance Committee	9 July 2010	<p>Administration's paper on the increase of \$500 million for Operation Building Bright (FCR(2010-11)37) http://www.legco.gov.hk/yr09-10/english/fc/fc/papers/f10-37e.pdf</p> <p>Minutes of the meeting (LC Paper No. FC9/10-11) http://www.legco.gov.hk/yr09-10/english/fc/fc/minutes/fc20100709.pdf</p>
Council meeting	12 January 2011	<p>A written question on "Operation Building Bright" raised by Hon LEE Wing-tat and the Administration's reply http://www.info.gov.hk/gia/general/201101/12/P201101120175.htm</p>
Council meeting	16 February 2011	<p>A written question on "Operation Building Bright" raised by Hon LEE Wing-tat and the Administration's reply http://www.info.gov.hk/gia/general/201102/16/P201102160185.htm</p>