

**For discussion  
on 23 March 2021**

**LEGISLATIVE COUNCIL  
PANEL ON DEVELOPMENT**

**Building Drainage System Repair Subsidy Scheme**

**PURPOSE**

This paper briefs Members on our proposal to launch the “Building Drainage System Repair Subsidy Scheme” (“DRS”) with a non-recurrent commitment of \$1 billion. It is expected the funding scheme would benefit owners of over 3 000 old and dilapidated domestic (viz. residential or composite) buildings in repairing and/or upgrading the drains of their buildings.

**JUSTIFICATIONS**

2. The design, construction, erection, repair, alteration and removal of drains for private buildings are regulated by the Buildings Ordinance (“BO”) (Cap. 123) and its subsidiary legislations. Generally speaking, drains designed in accordance with the BO and the Building (Standards of Sanitary Fitments, Plumbing, Drainage Works and Latrines) Regulations (“Drainage Regulations”) (Cap. 123 sub. leg. I), given proper maintenance and repair, would prevent foul air and virus transmitting through such air from entering the premises through the drains. Works for common drains in existing buildings, depending on the scale, nature and complexity, may only be undertaken by registered general building contractors (“RGBC”) and registered minor works contractors (“RMWC”) who are regulated by the BO and the Building (Minor Works) Regulation (Cap. 123 sub. leg. N).

3. Amid the COVID-19 epidemic, there have been rising public concerns on defective drains. In fact, defective drains and drains not properly sanitised will affect occupants' health and environmental hygiene. In response to heightened public concerns, the Buildings Department ("BD") launched a territory-wide drainage inspection programme in June 2020, funded by the Anti-epidemic Fund, to proactively inspect the drains at the external walls of some 20 000 private residential or composite buildings exceeding three storeys. Insofar as enforcement against defective drains is concerned, BD may issue advisory letters or statutory orders under the BO, requiring owners to carry out drainage investigations, repair and/or rectification works.

4. It has all along been the Government's position that owners should take primary responsibility for the proper maintenance and repair of their properties. That said, we recognise that some owners lack the means, knowledge or ability to discharge their responsibility. While there are existing building rehabilitation schemes providing financial assistance to eligible owners to undertake works related to the drains of their buildings (e.g. Operation Building Bright 2.0 ("OBB 2.0") and the Building Maintenance Grant Scheme for Needy Owners ("BMGSNO")<sup>1</sup>), since the funding may be deployed to various aspects of a building including structural elements, fire safety provisions and external elements etc., the resources that may be available for drain-related works would inevitably be thinned out.

5. Similar to works for common parts of a building, works for common drains require coordination among owners. Such a requirement may be difficult for owners without the ability to organise the works by themselves, particularly owners of "three-nil buildings"<sup>2</sup> which reflect a phenomenon more prominent among aged buildings. In such cases, statutory orders alone without active intervention by the authority may not be effective enough in compelling owners to rectify the defective drains. At the same time, the inaction of owners may pose health hazards to the occupants and the neighbourhood.

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<sup>1</sup> OBB 2.0 provides assistance to owner-occupiers of eligible buildings to comply with the Mandatory Building Inspection Scheme requirements. BMGSNO is a means-tested scheme for undertaking a range of building rehabilitation works.

<sup>2</sup> Viz., buildings which do not have an owners' corporation or owners' committee, or having engaged any property management company.

6. To step up the support to owners and in view of the possible health hazards posed by defective drains, there is a case to introduce a scheme dedicated to assisting owners of higher-risk buildings for repairing or even upgrading of drains of the building. To this end, the Financial Secretary announced in his speech for 2021-22 Budget on 24 February 2021 the proposed establishment of the DRS.

## FEATURES

7. Key features of the proposed DRS are –
- (a) Adopting risk-based and targeted approach – noting that drains of old buildings may be more prone to neglect, and that owners of old buildings of lower rateable values (“RV”) are generally less equipped with organisation ability and means, the DRS would focus on helping **residential or composite buildings aged at or above 40 with lower average RV** (details in paragraph 8 below).
  - (b) Providing sufficient incentive – the proposed DRS would subsidise **80% of the total cost** for investigation and repair of drain-related works, subject to a **reasonable cap set on a “per-building” basis** to ensure prudent use of public funds (details in paragraph 14 below).
  - (c) Direct and proactive intervention by BD for owners who could not coordinate the works by themselves – apart from accepting applications from eligible buildings with owners who are willing and able to organise the investigation and repair works themselves (i.e. Category 1 buildings referred to in paragraph 9(a) below), **BD** would, on a **risk basis**, select buildings whose owners do not have the ability to coordinate the works by themselves and **exercise its statutory power to carry out the requisite works** for compliance of outstanding statutory drainage-related orders in default of the owners concerned (i.e. Category 2 buildings referred to in paragraph 9(b) below).

Details of the proposed scheme are set out in the ensuing paragraphs.

### **Eligible buildings**

8. Generally speaking, buildings that are of higher age and lower RV are more prone to building disrepair. Targeting at these higher risk buildings, and to ensure prudent use of public fund, we **propose** that the DRS would benefit property owners of private residential or composite buildings or subsidised sale flats involving **buildings aged 40 or above** that are subject to the control of the BO, on the condition that the average RV of the domestic units of the building not exceeding \$162,000 for buildings in urban areas and \$124,000 for buildings in the New Territories (“NT”)<sup>3</sup> at 2017-18 level. The same average domestic RV threshold has been adopted for various building rehabilitation schemes such as OBB 2.0 and Fire Safety Improvement Works Subsidy Scheme, and should cover some 80% of old buildings aged 30 or above territory-wide (which is around 10 000 buildings as of end 2020). The average domestic RV threshold may be subject to regular updating to maintain its real value. We roughly estimate that the commitment of \$1 billion may benefit over 3 000 eligible buildings. Depending on the response to the scheme and spending position of the approved funding commitment, we may consider including younger buildings to join the DRS at a later stage.

9. We **propose** that buildings participating in the DRS be divided into two categories, as follows –

- (a) **Category 1 buildings** are buildings whose owners are willing and able to organise among themselves to take up the investigation and repair works relating to the common drains of the buildings, irrespective of whether there is any outstanding drain-related statutory order to comply. The owners of these buildings will make applications for funding to the Urban Renewal Authority (“URA”), our partner in administering the DRS; and

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<sup>3</sup> Urban areas include Sha Tin, Kwai Tsing and Tsuen Wan districts, while NT include all NT districts but excluding Sha Tin, Kwai Tsing and Tsuen Wan districts.

- (b) **Category 2 buildings** are buildings selected by BD on a risk basis which have outstanding statutory order(s) for the common drains but the owners concerned have difficulties in coordinating the works by themselves in order to comply with the order(s). For such buildings, BD will exercise its statutory power to employ default works consultants and government contractors to carry out the required works in default of the owners concerned. Owners of Category 2 buildings will also be able to benefit from the proposed DRS in paying BD's cost incurred in the default works.

10. Relative to comprehensive inspection and repair works required under the Mandatory Building Inspection Scheme, works for common drains of a building is of smaller scale. To avoid disproportionately high administration cost and to allow more efficient processing and disbursement of subsidies, we **propose** that the subsidy be provided on a "per-building" basis as set out in paragraph 14 below, and that there will be no means test or live-in requirement on owners.

## **Scope of works covered**

### *Adopting a targeted yet pragmatic approach*

11. The DRS **primarily** seeks to cover the investigation, repair and related costs for works related to **common drains** of a building, including such drains located at the external walls of a building, inside a building (including drainage pipes within pipe ducts) and underground. The drainage system of a building typically contains common drains for discharging rainwater, waste water and soil water, as well as branch pipes connecting to outlets serving individual units.

12. To strike a balance between providing assistance where it is most needed and stressing the responsibility of owners, the proposed DRS will not cover works for drains serving individual units and located within individual premises where repair can be conveniently arranged by owners/occupants. That said, we acknowledge that it is typical for owners to undertake in one go the repair works relating to branch pipes that are located at external walls while organising repair works for common drains. We therefore **propose** that the DRS will cover also the works for

pipes serving individual units that are not located within individual premises on condition that such pipes are located in proximity with the common drains where works are warranted. The arrangement seeks to minimise inconvenience to occupants, for instance by obviating the need of a separate scaffolding. The same principle would generally be followed for BD when undertaking default works for Category 2 buildings. It means that BD would also go an extra mile to undertake, as far as reasonable, default works required for pipes serving individual units for disposal of statutory orders, on condition that works for the common drains will also be carried out in the proximity. It is an exceptional arrangement having regard to heightened public concern over drains.

### *Encouraging upgrading works*

13. For both Category 1 and Category 2 buildings, we **propose** that the DRS would cover **works that are needed to comply with relevant requirements under the BO and its subsidiary legislations**. That said, it is relevant to note that BD is preparing legislative amendments to the extant Drainage Regulations to enhance the drainage standards. Pending legislative amendments to be introduced for consultation in the coming legislative session, BD plans to issue a practice note shortly to promulgate various enhanced standards of aboveground drainage system which will be applicable to new building developments as well as alteration and addition works affecting the relevant parts of the drainage system in existing buildings. While the practice note will not apply to drainage repair works, to encourage early adoption of enhanced design standards, we **propose** that, apart from drainage investigation and repair works, the DRS would cover the cost for works carried out to **upgrade the existing drains in accordance with BD's enhanced standards in the practice note**.

### **Subsidy level**

14. We **propose** subsidising 80% of the cost needed for the investigation, repair, enhancement and related cost for works related to the building drains, subject to a reasonable cap applied on a “per-building” basis depending on the number of domestic units of the building to ensure prudent use of public fund. Having regard to the cost of such works including scaffolding, we **propose** that the following cap be applied –

<b>No. of domestic units in the buildings</b>	<b>Proposed subsidy cap per building</b>
20 and below	\$120,000
21 to 50	\$250,000
51 to 100	\$450,000
101 to 150	\$600,000
151 to 200	\$750,000
201 units and above	\$1,000,000

15. Apart from the above, we further **propose** that the DRS would be complementary to other building rehabilitation schemes including but not limited to OBB 2.0 and BMGSNO to strengthen the support to eligible owners, i.e. obtaining subsidies under DRS would not bar the beneficiaries from applying for subsidies under other schemes while expenditure of the same works would not be doubly subsidised. Drawing reference to the operation of OBB 2.0, we will establish a committee comprising representatives from BD, URA and this bureau to consider exceptional cases, for example, cap applicable to buildings with an exceptional large number of units.

## **IMPLEMENTATION PLAN**

### **Timetable**

16. Subject to passage of the Appropriation Bill 2021, we plan to launch the DRS in May 2021. Applications would be received on a continual basis, with target buildings fulfilling the eligibility criteria to be announced from time to time to accommodate applications in an orderly manner based on risk-assessment. Applications would be approved in small batches with priority accorded to more warranted cases to allow early commencement of works. At the first phase, we plan to accept applications (for Category 1 cases) and select buildings (for Category 2 cases) that have outstanding statutory order(s) related to common drains of the buildings. There are some 530 such buildings as of end January 2021<sup>4</sup>.

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<sup>4</sup> As of end January 2021, there are some 570 drainage orders (involving about 480 buildings) and some 50 removal orders (involving about 50 buildings) requiring rectification of misconnected drains yet to be complied with among domestic buildings aged 40 or above. Some of which may however exceed the RV threshold imposed under the DRS.

While awaiting formal launching of the schemes, the URA would proactively approach these buildings informing them of the proposed DRS so that owners may line up the works at their end, while BD would also make requisite preparatory work for Category 2 buildings in parallel. Our target is to commence the investigation or repair works for 300 eligible buildings, covering both categories, within 2021. Depending on the community responses, the scheme is estimated to benefit over 3 000 buildings with cashflow spreading across six years.

### **Transitional arrangements**

17. Noting that some owners may have already commenced works related to common drains of their buildings, making reference to the arrangements for similar schemes such as OBB 2.0, we **propose** the following transitional arrangements for DRS –

- (a) for works relating to common drains of the building that were ongoing<sup>5</sup> as of 24 February 2021 when the proposed DRS was announced, they may be eligible for the DRS;
- (b) for Category 1 ongoing cases where contractors were already engaged, URA will scrutinise the tendering process to ensure that the procurement complies with requirements under the Buildings Management Ordinance (Cap. 344); and
- (c) for Category 1 ongoing cases but contractors yet to be engaged, applicants would be required to procure the contractors using e-Tendering Platform under the “Smart Tender” Building Rehabilitation Facilitation Services (“Smart Tender”). Please refer to details in paragraph 20(a) below.

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<sup>5</sup> Works related to common drains of a building should be carried out by an RGBC or RMWC (paragraph 2 above refers). For Category 1 cases, drainage-related works would be considered as ongoing so long as BD has not yet issued an acknowledgement letter for the completion certificate of relevant approved alteration and addition works (works carried out by an RGBC), or to acknowledge the receipt of the certificate of completion of the drainage works under the Minor Works Control System (works carried out by an RGBC or RMWC). For Category 2 cases, the works would be considered as ongoing so long as the government’s contractor has yet to inform BD of the completion of default works.



## **Administration**

18. The Government has invited URA as partner in administering the DRS. The URA is operating an Integrated Building Rehabilitation Assistance Scheme which provides one-stop services to eligible buildings or owners in applying for funding under nine building rehabilitation-related assistance schemes including but not limited to OBB 2.0 and BMGSNO. Given its experience and network, the URA is best-placed for the administration of the DRS in a one-stop shop approach.

19. Funding required for disbursement of subsidies to eligible buildings will be allocated by instalments to the URA. A separate bank account will be set up for keeping and managing the funding, with interests generated therein be ploughed back for the scheme. As government's partner, URA will bear the costs of staffing and other associated administration costs. The URA will submit regular progress reports on, inter alia, the financial positions of the DRS, the amount of subsidy granted and the number of buildings benefitted. The URA will arrange an independent auditor to conduct annual audit on the accounts. A memorandum of understanding will be entered into by the Government and the URA detailing the terms of partnership under the DRS.

## **Measures to safeguard public fund**

20. The following measures would be put in place to safeguard public funds –

- (a) To minimise the risk of bid-rigging, we will require Category 1 buildings which are yet to procure the contractors to do so through URA's e-Tendering Platform under "Smart Tender" on which contractors who have indicated interest in receiving such tenders would be notified. The identity of tenderers would remain anonymous until tender opening, reducing the possibility of manipulation and interference in the procurement process<sup>6</sup>.

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<sup>6</sup> There are in total some 400 RGBCs and 100 Class I RMWC on the platform as of now. URA would open the platform for registration of Class II RMWC by mid-April 2021. Registration on the platform will be open all year round.

- (b) The URA will provide owners with practical guidelines and standard tender and contract documents for procurement of contractors. To facilitate informed decision-making of the owners, the URA will provide a cost reference database containing historical cost data for, inter alia, repairing common drains.
- (c) For Category 1 cases, the URA would conduct desk-top audit for all cases, and randomly select 5% of the cases for on-site checking to ensure that the works have actually be conducted as claimed. For Category 2 cases, the default works consultants engaged by BD would supervise the government contractors directly.

## **FINANCIAL IMPLICATIONS**

21. The proposed \$1 billion non-recurrent commitment for the DRS comprises (a) a commitment of some \$950 million for disbursement of subsidy to eligible buildings, and (b) a commitment of the remaining some \$50 million for the BD to procure services<sup>7</sup> for a period of six years from 2021-22 onwards to assist in the administration including overseeing the default works consultants and government contractors. BD would closely monitor the performance of the consultants with a view to ensuring that the default works would be undertaken satisfactorily.

22. Members may refer to the **Annex** for the estimated cash flow requirement. The annual cash flow is essentially demand driven and will depend on the actual number of applications received and approved, as well as the amount of subsidy to be disbursed each year. The estimated cash flow requirement for 2021-22 is \$10 million, and the estimated cash flow requirements arising from DRS will be included and reflected in the draft Estimates of the relevant financial years.

### **Development Bureau March 2021**

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<sup>7</sup> BD will procure consultancy services comprising personnel of adequate professional or technical background for the task.

**Building Drainage System Repair Subsidy Scheme  
Estimated Cost and Cash Flow Requirements**

<b>Financial year</b>	<b>Estimated cash flow requirement (\$' million)</b>
2021-22	10
2022-23	200
2023-24	240
2024-25	240
2025-26	210
2026-27	100
<b>Total</b>	<b>1,000</b>