Building Amendment (Building Manuals and Mandatory Inspections) Regulations 2025

Regulatory Impact Statement

VICTORIA State Government

Department of Transport and Planning

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Acknowledgements and limitations

The Department of Transport and Planning acknowledges its responsibility for this regulatory impact statement (RIS) that sets out the impacts of the proposed Building Amendment (Building Manuals and Mandatory Inspections) Regulations 2025.

This RIS has been prepared for the express purpose of supporting the proposed Regulations and other potential uses of the information contained in the RIS has not been a consideration in its development. No reliance should be placed on this document for any other purpose. The information contained in this RIS has not been subjected to an audit or any form of independent verification.

Components of this RIS were prepared with the assistance of Deloitte Access Economics.

Contents

Glossary

Abbreviation	Full name
ABCB	Australian Building Codes Board
ABS	Australian Bureau of Statistics
BCA	Building Code of Australia
Building Act	Building Act 1993
Building Regulations	Building Regulations 2018
CIE	Centre for International Economics
CSV	Cladding Safety Victoria
DTP	Department of Transport and Planning
FTE	Full-time employee
GSP	Gross State Product
IT	Information technology
MCA	Multi-criteria analysis
NCC	National Construction Code
proposed Regulations	Building Amendment (Building Manuals and Mandatory Inspections) Regulations 2025
PV	Present value
RBS	Relevant Building Surveyor
RIS	Regulatory Impact Statement
VBA	Victorian Building Authority
VPS	Victorian Public Service

Foreword

Purpose of this Regulatory Impact Statement

This Regulatory Impact Statement (RIS) evaluates two key building reforms proposed in the *Building Amendment (Building Manuals and Mandatory Inspections) Regulations 2025* (the proposed Regulations). The first reform proposes establishing a building manual for prescribed buildings in Victoria, and the second proposes introducing two new mandatory inspections during the building process, specifically at the pre-lining and waterproofing stages.

The RIS examines the proposed regulatory changes and their implications for industry and communities in Victoria. It assesses and explains the expected impacts of both reforms to provide stakeholders with a thorough understanding of the proposals.

The following elements are explored and assessed in this RIS:

- Problem analysis: Understanding the nature and scope of the problem that the proposed regulations aim to resolve, including the necessity for government intervention, the risks of non-intervention, and the objectives of such intervention.
- Options exploration: Multiple options were developed for both reforms. These options follow a review of recommendations from recent inquiries, data analysis, and stakeholder consultation.
- Impact analysis: This RIS evaluates the expected impacts of feasible options and determines the preferred option after considering multi-criteria and breakeven analysis.
- Summary of preferred options: This considers the probable impacts of the selected options on small businesses and competitive dynamics among firms.
- Implementation and evaluation: This outlines the implementation, enforcement, and evaluation of the proposed reforms.

Consultation framework

The opportunity to provide feedback on the RIS and proposed Regulations will be open from Tuesday, 4 March 2025 to Friday, 9 May 2025.

Feedback is welcomed on all aspects of this RIS. A series of specific questions are set out in the document and summarised in **Appendix A**. Feedback can also be provided by completing the survey (containing a separate series of questions) on the Engage Victoria website for this consultation.

All documents, including the proposed Regulations and RIS, can be accessed via the Engage Victoria website at engage.vic.gov.au/new-building-regulations-for-apartments.

Alternatively, comments may be provided via email to the following email address: building.policy@transport.vic.gov.au.

Hard copy submissions will also be accepted and should be addressed to:

Building Regulation and Reform Branch
Department of Transport and Planning
GPO Box 2392
Melbourne VIC 3001

For further assistance about the public comment process please call (03) 9655 6666.

Executive summary

Context

Victoria's building sector is a crucial driver of economic growth, employing over 355,000 Victorians and accounting for close to 10 per cent of the state's jobs.[1] By 2051, Victoria's population is expected to reach 10.3 million people.[2] To accommodate this growth, the Government's Housing Statement sets the bold target of building 800,000 additional homes over the next ten years. Apartments will play a key role in achieving this target and providing affordable, high-quality homes in the places where Victorians want to live.

However, public trust in the building system has been shaken by high-profile building failures in recent years. Previous research commissioned by DTP found that 28 per cent of consumers who had undertaken a residential building project reported experiencing issues during the project, such as time or cost overruns, unprofessional practitioner conduct or poor quality work.[3]

The Victorian government is responding with a suite of reforms to put consumers at the heart of Victoria's building system and ensure that Victorians can confidently build, renovate or buy homes. The government is committed to delivering a system that better supports consumers and provides affordable, safe and comfortable homes.

In 2019, the Expert Panel on Building Reform (Expert Panel) was appointed to review Victorian buildings' legislative and regulatory systems comprehensively. The Expert Panel has recommended the introduction of a building manual and the requirement for additional mandatory inspections for Class 2 buildings, focusing on the waterproofing stage and the framework before lining is installed. This builds on recommendations made in the national Building Confidence Report 2018 (BCR).

In June 2023, the *Building Legislation Amendment Act 2023* introduced a requirement for applicants for occupancy permits to prepare a building manual for new buildings. Regulations are required to be developed for the building manual to take effect.

The manual must be maintained and updated by the owners or owners corporations throughout the building's lifespan.

This RIS assesses the proposed Regulations, which will implement these two reforms: the introduction of building manuals and additional mandatory inspections. Both aim to increase compliance with building standards, improve the safety and quality of residential buildings and as a result, build consumer confidence.

Proposed reforms

Building manual

The *Building Legislation Amendment Act 2023* introduced regulation-making powers to the *Building Act 1993* (Building Act), mandating the preparation of a building manual for prescribed classes of buildings. This includes specifying the information and format of the manual, as well as requirements for maintaining, updating, and providing access to it.

The building manual aims to bridge the information gap between building practitioners and consumers, enhance the safety and maintenance of buildings during their occupation, and facilitate the timely identification and rectification of building defects. Access to comprehensive building documentation, including all necessary information for ongoing management, supports the building's safety and longevity. Accurate

[1] Australian Bureau of Statistics, *Labour Force Australia, Detailed*.
[2] Department of Transport and Planning (2023), *Victoria in Future.* Available at: Victoria in Future (planning.vic.gov.au)
[3] Internal DTP document, 2021, based on a survey of 2,207 Victorian consumers.

documentation enables timely rectification of defects, effective maintenance, and the prevention of further damage. For instance, without clear knowledge of the building materials, warranty periods, performance solutions, and maintenance schedules, owners may not foresee issues until they arise, potentially increasing repair costs.

The regulatory options for the building manual fall within the current powers of the Building Act and outline the requirements for preparing, approving, keeping, and maintaining an approved building manual. Possible options are tailored for Class 1b, 2, and 3 residential buildings. Class 2 (apartment buildings) and Class 3 (e.g. boarding houses, hotels) often involve more complex design and construction challenges than single-dwelling Class 1a buildings. These classes often accommodate multiple occupants or share amenities, raising unique safety concerns. The building manual regulatory options explored in this RIS include:

- Option One: Building manual for new Class 2 buildings.
    - Ensures safety, proper maintenance, and regulatory compliance for complex multi-unit residential buildings, protecting residents and property values.
- Option Two: Building manual for new Class 2 and 3 buildings.
    - Extends safety and maintenance benefits to other high-occupancy buildings including hostels ensuring comprehensive management across these facilities.
- Option Three: Building manual for new Class 1b, 2, and 3 buildings.
    - Provides a consistent approach to safety and maintenance standards across residential building types which may include multiple residents and vulnerable cohorts, from small guesthouses to large apartment complexes.

Additional mandatory inspections

The legislative framework for Victoria's building inspection regime, outlined in Part 4 of the Building Act, mandates builders to notify the Relevant Building Surveyor (RBS) at each prescribed mandatory notification stage. Builders must halt work if directed by the RBS, and the RBS must inspect the work in person. If non-compliant building work is identified during an inspection, the RBS must issue a direction to the builder to fix the non-compliant work. Following the final mandatory notification stage and inspection, the RBS may issue a certificate of final inspection or an occupancy permit if the building is safe and suitable for occupation and all compliance matters have been resolved.

Mandatory notifications and inspections aim to provide robust oversight of building work at crucial construction stages by detecting non-compliance and ensuring adherence to building permits, the Building Act and the Building Regulations 2018 (Building Regulations). These measures reinforce the builders' responsibility for compliance and allow any non-compliant work to be rectified.

To address a high prevalence of non-compliance identified in the framework and waterproofing of apartments, the Expert Panel has recommended the introduction of two additional mandatory notification stages: prior to the installation of lining to the framework and during work related to waterproofing.

DTP has identified three options for reform, which are proposed to apply to the construction of Class 2, 3 and 4 buildings:

- Option One: Encourage additional inspections through a practice note.
    - This is a non-regulatory option which focuses on education and a voluntary increase in inspections.
- Option Two: Require additional mandatory inspections through the Building Regulations supported by prescriptive regulations.
    - This is a prescriptive option, where clear, consistent and detailed requirements for the additional mandatory inspections will be inserted into the Building Regulations

- Option Three: Require additional mandatory inspections through the Building Regulations, supported by a ministerial Guideline.
    - This is a more flexible and risk-based option, which provides RBSs discretion on how to undertake the additional mandatory inspections required by the Building Regulations.

Analysis methodology

This RIS employs a multi-criteria analysis (MCA) framework to assess and compare options for each proposed reform and select a preferred implementation option. This structured assessment uses criteria relative to the base case, providing a balanced and transparent approach for evaluating policy objectives and highlighting key trade-offs. Each criterion in the RIS is weighted according to its importance, and the option with the highest total weighted score is selected as the preferred option.

Following the MCA, breakeven analysis determines the conditions under which the benefits of the preferred options outweigh the costs. This involves estimating the cost of a proposed reform and quantifying a key benefit to find the breakeven point. Due to uncertainties in costs and potential benefits, a complete cost-benefit analysis was not conducted. Instead, breakeven analysis provides an understanding of the likelihood that a reform will benefit society.

Preferred options

Building manual

The preferred option for the building manual, Option Three, prescribes requirements for new Class 1b, Class 2, and Class 3 buildings. This option achieved the highest weighted score in the MCA. Implementing this option is expected to incur costs for builders, building owners/owners corporations, RBSs, and the Government totalling $108.1 million (present value) over ten years. These costs are allocated to the stakeholders who bear the time burden of compliance, with detailed assumptions outlined in **Appendix C**.

Summary of MCA scores

Table 0.1 on the next page outlines a summary of the MCA results for the building manual. The analysis identified Option Three as the preferred option for regulatory reform.

Costs of preferred option

The total cost of implementing Option Three is estimated at **$108.1 million** over 10 years. This includes:

- $22.9 million for builders to prepare building manuals.
- $9.6 million for RBSs to review and approve the manuals.
- $75.7 million for building owners and owners corporations to update and maintain the manuals.
- $450,000 in government costs for developing educational materials and storing the manuals.

Table 0.1: Summary of MCA scores for building manuals

Criterion	Weight	Option One *New Class 2 buildings*	Option Two *New Class 2 and 3 buildings*	Option Three *New Class 1b, 2 and 3 buildings*
Cost criterion				
Costs to builders	12.5%	-2	-2.5	-2.75
Costs to RBSs	12.5%	-0.75	-1.25	-1.5
Costs to building owners/ owners corporations	12.5%	-7	-7.5	-7.75
Costs to government	12.5%	-0.25	-0.25	-0.25
Benefit criterion				
Reduced risk of building defects and associated harms	30%	3	5	6
Improved efficiency of the building system	20%	2	4	5
Total weighted score		**0**	**0.8**	**1.2**

Long-term benefits

The breakeven analysis focuses on the time saved by building owners and owners corporations as the primary quantifiable benefit. This time saving arises from easier access to important building documentation, allowing owners to quickly find information on maintenance, repairs, and compliance.

For each building type, the hours saved needed to cover the costs are:

- Class 1b buildings: Owners need to save 57 hours over the building's life (valued at $3,200).
- Class 2 buildings: Owners need to save 114 hours (valued at $6,500).
- Class 3 buildings: Owners need to save 133 hours (valued at $7,600).

The analysis shows that if these time savings are realised, the benefits will exceed the initial costs, making the regulation cost-effective in the long run.

The breakeven analysis only considers time savings, which accounts for just 40% of the total benefits identified in the MCA. Other critical benefits, like reduced building defects, improved safety, and the potential for fewer future repairs, are not quantified but would significantly increase the overall value of the reform. These unmeasured benefits could make the actual returns from the building manuals much larger than the breakeven analysis suggests.

Additional mandatory inspections

The preferred option identified for additional mandatory inspections is Option Three, which prescribes two additional mandatory notification stages in the Building Regulations to be supported by a Ministerial Guideline outlining how subsequent inspections should be carried out. Option Three received the highest score in the MCA analysis, as seen in the table below. Although this option is anticipated to have a higher cost burden on builders and RBSs than the other two options, it is also expected to result in a greater reduction in building non-compliance, outweighing the additional costs. The total cost associated with introducing additional mandatory inspections with Ministerial Guidelines is estimated at $113.1 million in present value terms over a 10-year analysis period.

Summary of MCA scores

Table 0.2 outlines a summary of the MCA results for additional mandatory inspections. The analysis identified Option Three as the preferred option for regulatory reform.

Table 0.2 Summary of MCA scores for additional mandatory inspections

Criterion	Weight	Option One *Practice note*	Option Two *Additional mandatory inspections supported by prescriptive regulations*	Option Three *Additional mandatory inspections supported by a Ministerial Guideline*
Cost criterion				
Costs to builders	16.7%	-2	-7	-8
Costs to RBSs	16.7%	-0.5	-1.5	-2
Costs to government	16.7%	0.00[4]	-0.25	-0.25
Benefit criterion				
Reduced risk of building non-compliance and associated harms	50%	2	5	7
Total weighted score		**0.58**	**1.04**	**1.79**

Costs of preferred option

The total cost of implementing Option Three is estimated at **$113.1 million** over 10 years. This includes:

- $79.3 million for builders to notify and for potential delay costs
- $33.7 million for RBSs inspection costs.
- $65,000 in government costs for developing educational materials.

[4] Option One has been awarded a score of 0 given its very small scale relative to the other options and the costs to other stakeholders. However, in practice, there is likely to be some costs still associated with Option One relative to the base case.

Long-term benefits

In order to breakeven with the cost of the preferred option, at least 2,600 instances of non-compliance must be identified and rectified as a result of additional mandatory inspections each year. This analysis is based on the cost saving of rectifying non-compliance during construction compared to after construction is complete and a building is occupied – a saving estimated to be approximately $5,300 for each instance of non-compliance. The volume of non-compliance required to be identified and rectified amounts to approximately 12% of total instances of waterproofing or framework non-compliance expected to emerge in Victoria in any given year. Sensitivity analysis suggests that this target is achievable, even without including additional, unquantified benefits, such as reduced legal and advisory costs for owners.

Small business and competition impacts

The proposed Regulations are likely to impact small and large businesses differently. However, benefits and costs are likely to scale with the magnitude of business activity, so small businesses are unlikely to be disproportionately affected. Small businesses may generally have less financial or administrative resources to fulfil the requirements of the preferred options. These impacts are anticipated to be modest.

Building manual

The draft Building Manual will impose limited administrative costs on small businesses, though larger businesses may face greater burdens. Small businesses generally handle smaller projects (Class 1 buildings) that have fewer requirements than larger projects (Class 2 and 3 buildings). While small owners corporations (OCs) may face stricter demands, they can benefit from improved management and maintenance practices over time. Under the preferred option, a building manual is only necessary for specific building classes, potentially leading to slight increases in construction costs but minimal overall impact on competition. Any costs associated with the manual are likely to be passed on to consumers and are small compared to overall development expenses. The open file format and provided guidance will facilitate easy manual preparation, reducing technical and knowledge-related barriers to competition.

Additional mandatory inspections

Although apartment construction is more commonly conducted by large businesses, the additional mandatory inspection requirements may present a barrier to small businesses wishing to expand into the apartment market. This is because small businesses may not have the same capacity as larger businesses to meet the requirements of the reforms. However, benefits and costs are likely to scale with the magnitude of business activity, so small businesses are unlikely to be disproportionately affected.

The reforms may benefit market competition by raising compliance standards, increasing the quality of work in apartment buildings and improving consumer outcomes. This may create a fairer playing field for businesses to compete without the risk of being undercut by less compliant businesses that may take shortcuts to offer consumers cheaper construction services.

Implementation

The proposed Regulations will have a delayed commencement date which will be informed by stakeholder consultation but will be at least six months after they are made. This will facilitate a smooth transition for industry to the new requirements for each reform.

Building manual

Effective communication will be essential for raising awareness about the significance of building manuals. The communication strategy will convey the manual's purpose, emphasising its benefits for building owners,

occupants, and property managers. Building owners will be educated on the manual's content, accessibility, and obligations, while property managers will receive information to support effective building maintenance.

The Victorian Building Authority (VBA)[5] will disseminate information through various channels, including website publications, and building surveyors will inform owners during the building permit application process. Additionally, guidance will be provided to support stakeholders involved in the construction manual process, assisting building owners, owner's corporations, and building practitioners in determining manual requirements. This may include templates and best-practice example manuals.

Additional mandatory inspections

The release of this RIS, the proposed Regulations, and the proposed Ministerial Guideline will allow key stakeholders and members of the public to consider each option and provide feedback. After the public comment period, DTP will consider the feedback when finalising the proposed Regulations. DTP will also consider feedback received on the proposed Ministerial Guideline and will publish a final version prior to the commencement of the proposed Regulations.

Amending the Building Regulations is only one step in implementing additional mandatory inspections. DTP, the VBA, and key stakeholders will undertake further work to ensure the industry is informed of and prepared for the new requirements. This will include practitioners' engagement through events such as the VBA's Practitioner Education Series.

Evaluation

The evaluation aims to assess the effectiveness of implementing building manuals and additional mandatory inspections. DTP will invite stakeholders to comment on the proposed Regulations' effectiveness and work with the VBA and industry to determine how the objectives are being achieved. The proposed Regulations amend the Building Regulations, which are scheduled to sunset in 2028. As a result of this timing, these regulations will be in effect for three years before the entire Building Regulations are reviewed, allowing an early opportunity to evaluate their impacts.

Leading up to the evaluation, DTP will monitor and engage with stakeholders to identify any issues relating to the practical implementation of new Regulations or aspects that require further investigation. This approach will be sensitive to the dynamic environment within which the reforms are proposed.

[5] On 24 October 2024, the Government announced that the VBA will be replaced with a new regulator, the Building & Plumbing Commission. The new regulator will be established by legislation to be introduced to Parliament in early 2025. References to the VBA in this RIS should also be taken to refer to the Building and Plumbing Commission, pending its establishment.

1. Introduction

1.1. Victoria's building sector

The building sector is a cornerstone of Victoria's economy. Construction is a significant driver of economic activity across works in both the public sector (including major infrastructure projects) and the private sector (including housing and commercial projects). Residential dwelling investment plays an important role, in large part driven by Victoria's strong population growth. The construction industry is crucial to successfully delivering major government programs such as the Big Build and Victoria's Housing Statement, which seeks to stimulate investment in high-quality, well-located homes.

The building industry's importance is borne out in its Gross State Product (GSP) share. Construction (including civil, commercial, and residential activity) contributes over $42.5 billion annually to the Victorian economy, or 7.5 per cent of GSP as of 2023.[6] This has increased from 5.6 per cent of GSP in 2004.

The sector has been a strong employer in Victoria, growing in both relative and absolute terms over the past decades. The sector has played an essential part in Victoria's COVID-19 recovery, and employment has grown to an average of 355,000 people in 2023 or 9.7 per cent of the state's total employment.[7]

A robust construction industry is essential to providing Victorians with safe, durable, affordable homes. This is pivotal to accommodate Victoria's growing population, projected to reach 10.3 million people by 2051, with Melbourne expected to become Australia's most populous city by the end of this decade.[8] A significant increase in housing supply is necessary to accommodate this population growth. The Housing Statement, released in 2023, sets a bold target to build 800,000 homes in Victoria over the next decade, with 70 per cent of future dwellings in Melbourne to be in established suburbs. High-quality apartment developments will be vital to meeting these objectives.

1.2. Legislative and regulatory framework

The legislative and regulatory framework for Victoria's building system ensures the safety and quality of all building activity and aims to protect consumers' rights. Figure 1 provides a visual overview of this framework.

1.2.1. Building Act 1993

The Building Act governs building and plumbing works in Victoria. It sets building standards and regulates building construction and maintenance. The Building Act aims to:

- Ensure the safety and health of people using buildings and public entertainment venues
- Support the construction of safe and compliant buildings
- Promote safe and effective plumbing practices to protect people's health, water supply, and wastewater systems
- Implement national building and plumbing standards
- Support cost-effective construction and maintenance of buildings and plumbing systems
- Promote the construction of environmentally friendly and energy-efficient buildings.

1.2.2. Building Regulations 2018

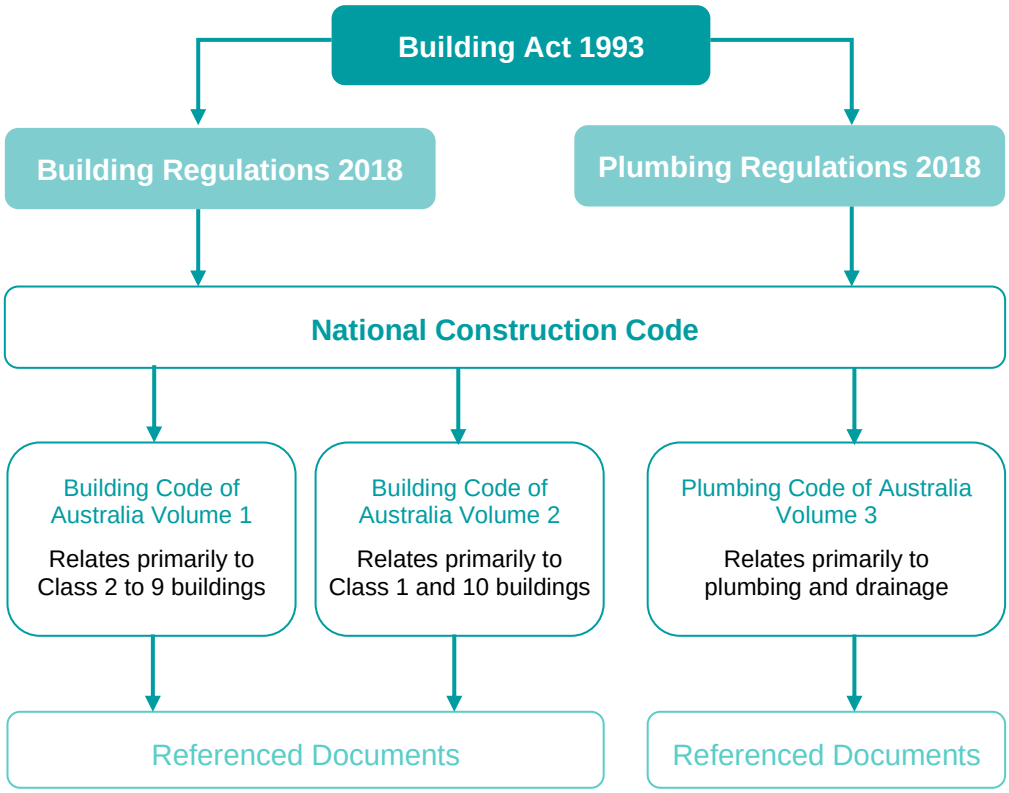
The Building Regulations support the Building Act. They establish standards for designing, constructing, and maintaining buildings and places of public entertainment. The regulations are reviewed every ten years to assess their relevance and practicality. The most recent review, in 2017, shaped the current regulations.

[6] Australian Bureau of Statistics, Australian National Accounts: State Accounts.
[7] Australian Bureau of Statistics, *Labour Force Australia, Detailed*.
[8] Victorian Government (September 2023), *Victoria's Housing Statement*.

Provisions in the regulations include requirements relating to:

- Building permits
- Building inspections
- Occupancy permits
- Enforcement
- Maintenance of buildings.

Figure 1: Victoria's building legislative framework



1.2.3. The Plumbing Regulations 2018

These regulate all plumbing work in Victoria, including specialised plumbing classes, and outline the qualifications and experience required for registration and licencing in each category. This means that plumbers and those intending to conduct plumbing work must meet specific qualifications and experience requirements to qualify for registration and licencing.

1.2.4. Victorian Building Authority (Building & Plumbing Commission)

The VBA is a statutory authority that oversees building control in Victoria. The functions of the VBA are set out in the section 197 of the Building Act and include:

- monitoring and enforcing compliance with the provisions of the Act and Regulations
- administering the registration of building practitioners
- supervising and monitoring the conduct and ability to practise of registered building practitioners
- participating on behalf of Victoria in the development of national building standards
- Provide information and training to assist persons and bodies in carrying out functions under the Act and Regulations

- promoting the resolution of consumer complaints about work carried out by builders
- conducting or promoting research relating to the regulation of the building industry in Victoria.

On 24 October 2024, the Government announced that the VBA will be replaced with a new regulator, the Building & Plumbing Commission. The new regulator will bring together the VBA, Domestic Building Disputes Resolution Victoria and the Domestic Building Insurance function of the Victorian Managed Insurance Authority. Legislation will be introduced to Parliament in early 2025 to enable the integration of these functions.

1.2.5. Building surveyors

Building surveyors play a key role in Victoria's building system as they are responsible for issuing building permits and occupancy permits or certificates of final inspection. Building surveyors also carry out inspections throughout the build to ensure building work is progressing in line with the relevant Building Permit, the Building Act, the Building Regulations and the NCC. There are two types of registered building surveyors – private building surveyors (PBS) and municipal building surveyors (MBS). MBSs are appointed by the relevant local council upon application to that local council for a building permit, whereas PBSs are appointed privately by an owner or agent of the owner. Once a builder surveyor is appointed, they become known as the relevant building surveyor (RBS) for the building works.

Specifically, an RBS's responsibilities include:

- assessing and approving permit applications
- certifying plans and structures in accordance with legislation
- obtaining the consent of reporting authorities such as water authorities or local councils
- causing building work to be inspected during the construction phase
- verifying building works have been carried out in accordance with the building permit
- issuing directions to fix non-compliant building work
- serving compliance directions, notices and orders when necessary
- issuing occupancy permits and certificates of final inspection.

1.2.6. National Construction Code

The National Construction Code (NCC) integrates building and plumbing requirements. It is maintained by the Australian Building Codes Board (ABCB), a collaboration of federal, state, and local governments and the building and plumbing industries. The NCC is updated every three years, with the latest edition (NCC 2022) implemented in Victoria on May 1, 2024. The NCC is incorporated into Victoria's regulatory framework through the Building Regulations.

The NCC is divided into three volumes:

- **Volume One**: Technical design and construction requirements for Class 2–9 buildings.
- **Volume Two:** Technical design and construction requirements for Class 1 and 10 buildings.
- **Volume Three:** Contains the Plumbing Code of Australia, regulating aspects of plumbing and drainage installations.

The NCC classifies buildings into different classes based on their use (refer to Table 1.1). Some buildings may serve multiple purposes or have mixed uses, leading to mixed or multiple classifications.

Table 1.1: National Construction Code building classes

Class 1 Domestic or residential buildings: single, standalone houses, and horizontally attached houses, such as terrace houses, row houses, or townhouses. This class includes two subclassifications: • Class 1a: single dwelling or a group of attached dwellings (e.g. terrace house) • Class 1b: a boarding house, guest house or hostel with a less than 300 m2 floor area.	**Class 2** Domestic apartment buildings: a building containing two or more sole occupancy units where people live above, beside, or below each other. This class may also include single-storey dwellings with common areas below, such as car parks.
Class 3 Residential buildings other than Class 1 or Class 2 that provide long-term or transient accommodation for unrelated persons. For example: • boarding house • hotel, motel, or guesthouse. • hostel or backpackers • student accommodation or worker quarters • residential care building.	**Class 4** A single domestic dwelling within a building of a non-residential nature (that is, a Class 5 to Class 9 building). For example, a caretaker's residence within a hospital.
Class 5 Office buildings for professional and/or commercial purposes, such as government agencies, accountants, or lawyers.	**Class 6** Buildings where retail goods are sold or services are supplied to the public, such as shops and restaurants.
Class 7 Buildings such as car parks, warehouses, and storage buildings. This class includes two subclassifications: • Class 7a: carparks • Class 7b: warehouses, storage buildings, or buildings for the display of wholesale goods.	**Class 8** Factories: buildings used for the production, assembling, altering, packing, cleaning, etc. of goods or produce. This class may also include the following: • mechanic's workshop • abattoir • laboratory.
Class 9 Public buildings include three sub-classifications: • Class 9a: healthcare buildings, such as hospitals and day surgery clinics • Class 9b: buildings where people gather for social, political, theatrical, religious, or civic purposes, e.g. schools, universities, sports facilities, night clubs • Class 9c: aged care facilities.	**Class 10** Non-habitable structures include three subclassifications: • Class 10a: sheds, carports, private garages • Class 10b: fences, masts, antennas, retaining walls • Class 10c: private bushfire shelter.

Source: Adapted from the Victorian Building Authority

1.2.7. Other relevant legislation

In addition to the Building Act, several other Acts at the state and Commonwealth levels are relevant to regulating the building industry.

Table 1.2: Other Relevant legislation for the building industry

Act	Description
Planning and Environment Act 1987 (Vic)	Provides a framework for the use and development of land (including the planning approvals process).
Domestic Building Contracts Act 1995 (Vic)	Regulates contracts for carrying out domestic building work and provides for the resolution of domestic building disputes.
Security of Payments Act 2002 (Vic)	Provides for progress payments to be made to people carrying out construction work.
Architects Act 1991 (Vic)	Provides for registration of architects, regulates their professional conduct and establishes procedures to handle complaints against architects.
Occupational Health and Safety Act 2004 (Vic)	Sets out key principles, rights and duties regarding occupational health and safety, and is the main workplace health and safety law in Victoria.
Australian Consumer Law in Schedule 2 of Consumer and Competition Act 2010 (Cth)	Provides consumer protection from misleading and deceptive conduct, unfair contract terms and defective goods or services purchased.
Electricity Safety Act 1998 (Vic) and Gas Safety Act 1997 (Vic)	Authorises Energy Safe Victoria oversight and investigatory powers for building issues relating to electricity or gas.
The Owners Corporation Act 2006 (Vic)	Sets out the duties and powers of owner corporations regarding apartment buildings and provides appropriate mechanisms for resolving disputes relating to the owner corporation.
Sale of Land Act 1962 (Vic)	Regulates the sale of land in Victoria.
Surveying Act (2004) (Vic)	Requires annual registration of licensed surveyors for cadastral surveying in Victoria, establishes the Surveyors Registration Board of Victoria, and provides for fees for the maintenance of the survey control network.

1.2.8. Reforming Victoria's building system

DTP is undertaking a comprehensive program of reform to put consumers at the heart of Victoria's building system and ensure that they can confidently build, renovate, or buy a home. These reforms aim to improve the building system's support for consumers while delivering affordable, safe, and compliant homes.

This reform program follows several high-profile building failures that have eroded the public's confidence in the building system. Previous research commissioned by DTP found that 28 per cent of consumers who had

undertaken a residential building project reported experiencing issues during the project, such as time or cost overruns, unprofessional practitioner conduct or poor quality work.[9]

The Building Confidence Report (2018), the Victorian Cladding Taskforce Report (2019), and the Building System Review Expert Panel Reports (2021 and 2023) have highlighted that the building system in Victoria is not operating as it should, particularly with regard to ensuring that new apartment construction is safe and compliant. This has flow-on implications for affordability, as the consumer bears the cost of rectifying building defects. Industry research estimates the added cost to consumers is 5 per cent per building contract or approximately $1 billion annually in Victoria.[10] The Expert Panel was appointed in 2019 to undertake a comprehensive review of Victoria's building system and has provided 30 overarching recommendations for critical areas of reform across two reports. The changes are complex, requiring careful consideration of potential impacts and involvement of stakeholders from all parts of the sector.

The 2024-25 State Budget provided funding to support this reform program, with priorities including increasing access to insurance for consumers, delivering reforms to support the use of modern methods of construction and the development and delivery of a new legislative model for the building system.

1.2.9. Building Legislation Amendment Act 2023

The *Building Legislation Amendment Act 2023*, which received Royal Assent on June 6, 2023, implements several recommendations from the Expert Panel's Stage One Report. It introduced significant changes to several acts, including the Building Act, the *Architects Act 1991*, the *Surveying Act 2004*, and the *Planning and Environment Act 1987*. Key reforms included in the Act included:

- **Creation of a Building Monitor:** A dedicated advocate for domestic building consumers in Victoria.
- **Creation of the State Building Surveyor:** The State Building Surveyor is the main source of technical expertise for industry and practitioners.
- **Expansion of building industry registration:** This change enhances regulatory oversight over practitioners, increases their accountability, and provides better consumer protection.
- **Introduction of building manuals:** To ensure comprehensive building documentation is readily available and accessible.
- **Strengthened information-sharing provisions:** Enabling agencies to share reliable, accurate information about the building industry to better monitor building issues and trends.

1.3. Options development and methodology

1.3.1. Options development

In developing this RIS, DTP considered and assessed different options that could achieve the objectives for each reform. Three options were identified for each proposed reform.

Building manual

- Option One: Building manual for new Class 2 buildings.
- Option Two: Building manual for new Class 2 and 3 buildings.
- Option Three: Building manual for new Class 1b, 2, and 3 buildings.

[9] Internal DTP document, 2021, based on a survey of 2,207 Victorian consumers.
[10] Association of Wall & Ceiling Industries and Master Painters Association of Victoria (January 2017), *Build Better Report*.

Additional mandatory inspections

- Option One: Encourage additional inspections through a practice note (a non-regulatory option).
- Option Two: Amend the Building Regulations to require additional mandatory inspections, supported by prescriptive requirements in the Regulations.
- Option Three: Amend the Building Regulations to require additional mandatory inspections, supported by risk-based requirements in a Ministerial Guideline.

Further detail about these options, including the rationale for these options, is contained in sections 2.4 and 3.4.

1.3.2. Methodology to select the preferred option

MCA compares and assesses the options identified for introducing building manuals and additional mandatory inspections and selecting a preferred implementation option.

MCA is a technique used to assess policy options against a set of decision criteria. It enables a transparent comparison of options using a mixture of quantitative and qualitative information. It allows analysis to consider a wider range of criteria (e.g. equity considerations) not typically included in other common economic analyses, like a breakeven analysis. All necessary subjective judgements and assumptions used to determine options and criteria and to assign scores and weights are explicitly articulated. The preferences of the decision maker reflected in these judgements and assumptions can be readily changed through a sensitivity analysis or by incorporating alternative indicators.

MCA requires judgement on how the identified options will contribute to a series of criteria selected to reflect the benefits and costs of the proposed regulatory reform. Each criterion is assigned a weight reflecting its importance to the policy decision. A weighted score is derived for each option, and the option with the highest total weighted score is then selected as the preferred option.

The two reforms assessed by this RIS may have overlapping effects, including:

- the extent to which each reform will contribute to an overall increase in compliance with building standards
- the increase in the overall quantity and quality of documentation prepared by stakeholders.

While this may result in compounding impacts, the two MCAs do not explicitly consider the effect of this overlap.

1.3.3. MCA scoring scale

Under a MCA, each option is scored against each criterion on a scale from -10 to +10, based on how each option measures against that criterion in comparison to the base case (Figure 2). The option that receives the highest weighted score of all the criteria is then selected as the preferred option. The options are scored compared to the base case, which receives a score of zero for all criteria.

Figure 2: MCA scoring scale

Negative		Neutral	Positive	
-10	**-5**	**0**	**+5**	**+10**
Much worse than the Base Case	Slightly worse than the Base Case	No change from the Base Case	Slightly better than the Base Case	Much better than the Base Case

1.3.4. Approach to selecting and weighting MCA criteria

The MCA criteria for the options analysis related to the introduction of building manuals and additional mandatory inspections are outlined in Table 0.1 and Table 0.2 The respective analysis chapters' total costs and benefits have been neutrally weighted at 50% each. This is consistent with best practice in Better Regulation Victoria's guidance note on MCA.[11]

The individual criteria in Table 0.1 and Table 0.2 are weighted according to their relative importance in achieving the objectives of the regulatory reform. Cost impacts are distributed between builders, building surveyors, building owners/owners corporations (building manuals analysis only) and Government. Equal weight is placed on each cost category to ensure that the equivalent of a dollar to one stakeholder is given the same weight as a dollar of cost to another. The reduced risk of building defects or non-compliance with building standards and associated harms is the critical benefit criterion analysed in both MCAs. Improving the efficiency of the building system is considered in the building manual analysis only.

1.3.5. Breakeven analysis

Following the selection of the preferred option through the MCA, a breakeven analysis is used to consider the conditions under which the benefits of the preferred options for regulatory reform outweigh the costs. The breakeven analysis involves estimating the cost of a proposed reform option before quantifying a key benefit and estimating how prevalent this benefit would need to be to equal total costs. This is the 'breakeven' point.

Cost-benefit analysis has not been undertaken because of uncertainties in the precise nature and scale of costs and, more significantly, potential benefits. The rounding approach, outlined in Figure 3, has been adopted throughout the options analysis chapters to reflect the uncertainty associated with these estimates. Several factors make it difficult to quantify the potential benefits associated with the proposed Regulations.

Figure 3: Approach to rounding in this RIS

Approach to rounding in this RIS

Throughout the options analysis chapters, where numbers can be directly traced to another source (or have been provided to the DTP as a direct estimate), they are referenced as such. Where numbers are derived from calculations that build upon sources, numbers have been reported in their rounded forms to avoid indicating false precision in situations where costs and benefits remain uncertain. The approach to rounding is as follows:

Value	Rounding	Example
Up to 1,000	To the nearest 10	470
1,000 to 10,000	To the nearest 100	5,300
10,001 to 1 million	To the nearest 1,000	247,000
Above 1 million	To the nearest 100,000	15.6 million

The reporting of rounded figures throughout the options analysis means that for some calculations, the reported total or final estimate may not sum exactly due to the rounding adjustments. Note also that the breakeven analysis's unit benefits and breakeven points are not rounded, given that breakeven analysis is not presented as an actual cost or benefit.

[11] Better Regulation Victoria (2019), '*Guidance Note – Multi-Criteria Analysis*'.

First, the nature of potential building issues is unpredictable and can vary widely in severity and frequency. For example, the impact of matters avoided can range from minor inconveniences to major structural failures or safety hazards. This uncertainty is compounded by a lack of historical data on the actual frequency and value of building issues that could be prevented. This is because many defects and instances of non-compliance go undetected until they manifest as more significant problems. Finally, some of the broader benefits associated with the proposed Regulations (such as improved safety, enhanced occupant satisfaction, and avoided inconvenience) can be difficult to measure, given they are often subjective and intangible.

Without sufficient information to conduct a complete cost-benefit analysis, a break-even analysis gives policymakers an understanding of the likelihood that a reform will provide a net benefit to society.

1.3.6. Approach to selecting benefits for breakeven analysis

A range of benefits will likely result from the introduction of building manuals and additional mandatory inspection requirements. For the introduction of building manuals, these benefits include:

- time savings for building owners/owners corporations or other stakeholders that can use the manual to find information faster than they otherwise would.
- avoided costs of defects that are prevented due to behavioural change from builders and sub-contractors, from increased transparency due to the availability of the building manual.
- improved safety for building residents because the building manual accelerates identifying defects and conducting maintenance.

For additional mandatory inspections, benefits include:

- avoided construction costs of rectifying non-compliance after building completion.
- non-compliance is prevented because the knowledge of additional inspections leads to greater care taken during the construction process by builders and sub-contractors.
- avoided costs of professional advice needed to identify and understand the nature of non-compliance after building completion.
- avoided legal costs of allocating responsibility for rectification funding and coordination.
- time savings and avoided inconvenience costs for occupants when rectification affects their use of the building and amenities (for example, if they are forced to access temporary accommodation).
- avoided property value losses for owners due to discovery of non-compliance.

Conducting a breakeven analysis requires selecting benefit metrics that balance the most relevant benefits of the proposed reforms with the most quantifiable. For the regulatory reforms relating to the introduction of building manuals and additional mandatory inspections, benefit metrics for the breakeven analysis have been selected to reflect key outcomes identified by DTP and the availability of data to support credible attribution of these benefits to the proposed interventions.

Table 1.3: Benefit metrics

Reform	Benefit metric
Building manuals	Time saved by owners and owners corporations using the building manual
Additional mandatory inspections	Avoided costs of rectifying non-compliance after building completion

These two benefits have been selected because they provide a quantifiable unit for comparison and reflect key policy objectives for the proposed interventions.

- For the building manual, time saved using it is selected because it is more directly linked to the intervention and provides an immediate, measurable benefit. Avoiding rectification costs is another key benefit, but quantification would require estimating how builders and sub-contractors would change behaviour when the manual is introduced. This makes the benefit more speculative than the time saved.
- For additional mandatory inspections, avoided costs of rectifying after completion are selected because detecting non-compliance through inspection directly supports earlier rectification and prevention. The benefits of this are quantifiable as the costs of rectifying non-compliance are known from historical data.

While the benefits outlined above (such as improved safety, avoided inconvenience, and professional advice costs) are not captured in the breakeven analysis, they should be considered when assessing the feasibility of either intervention breaking even.

2. Building Manual

In June 2023, the *Building Legislation Amendment Act 2023* established a new requirement for applicants for occupancy permits to prepare and submit a draft building manual for prescribed new buildings to the RBS for approval. The owners or owners corporations are then required to maintain and update the approved building manual throughout the building's lifespan.

These amendments were informed by the following:

- **The Building Confidence Report 2018** (BCR)[12] highlighted that the owners of Class 2–9 buildings often lack sufficient and accurate information about their buildings. Recommendation 20 of the BCR suggests that a building manual should be made mandatory for Class 2 to Class 9.
- **The Australian Building Codes Board** (ABCB) released a discussion paper and model guidance for building manuals.[13]
- **Victoria's Expert Panel on Building Reform Stage One Report** (2021) cites the building manual as a foundational recommendation for assisting Victoria's buildings' safety.[14]
- **Introducing a Building Manual in Victoria: Implementation Guide 2023** (*unpublished)* (Nous Report). In June 2023, the DTP engaged the Nous Group (Nous) to develop guidance for introducing a building manual in Victoria, including consideration of responsibility for preparing and assuring the completeness of information for implementation.
- **The Victorian Building Authority's Building Documentation Audit Program**[15] monitors building work in Victoria to ensure compliance with regulatory requirements. This involves reviews of building documentation to verify that registered building practitioners are meeting their responsibilities and maintaining a quality-built environment.

2.1. Legislative framework

The Building Act outlines the requirements for a building manual via the following steps:

1. **Building Permit**: The RBS must indicate in the building permit application whether a draft building manual needs to be included in the occupancy permit application.
2. **Staged Building Permit**: The building manual should only be provided in the application for the final stage of a staged building permit.
3. **Preparation of a Draft Building Manual**: A representative of the owner, such as a builder who intends to apply for an occupancy permit for a newly constructed building, must prepare a draft building manual. This initial version is prepared using documents, information collected during construction, and contributions from designers, developers, sub-contractors, and licensed trades.
4. **Assessment of Completeness**: The RBS confirms that all prescribed documentation is included in the draft building manual when an application for an occupancy permit is made. The term "completeness" refers to the inclusion of all prescribed documentation in the building manual at the time of applying for an occupancy permit. The RBS is not responsible for verifying the accuracy of the information contained in the manual.
5. **Approval of Building Manual**: After the RBS approvals, the draft manual becomes the approved building manual. The RBS must approve a draft building manual that meets all the requirements specified in the Regulations. This assessment is based on the prescribed contents of the building manual (See **Appendix B**).
6. **Distribution of Building Manual**: The occupancy permit applicant must provide a copy to the owner or owner's corporation at its first meeting.

[12] Shergold, and Weir (2018), Building Confidence: Building Ministers' Forum Expert Assessment.
[13] Australian Building Code Board (2021), Building manuals Model guidance on BCR Recommendation 20.
[14] Expert Panel on Building Reform (2023), Stage One Final Report to Government.
[15] VBA, Building Documentation Audit Program.

7. **Maintenance and Updating of the Approved Building Manual**: The owner or owner's corporation will be responsible for maintaining and updating the approved building manual.
8. **An Offence for False Information**: Including false or misleading information in a draft or approved building manual will be an offence.
9. **Preservation of Initial Building Manual**: Maintaining a single, reliable, and comprehensive documentation source is essential to ensure accurate and up-to-date information.
10. **Runs with the Life of the Building:** The *Sale of Land Act 1962* requires the vendor of the land to give an up-to-date copy of the building manual to the purchaser of the land upon settlement of a contract of sale.

2.1.1. Prescribed regulations for building manuals

The *Building Legislation Amendment Act 2023* introduced general regulation-making powers to the Building Act to prescribe the following:

- The prescribed class of buildings a building manual is required for.
- Information contained in or accompanying a draft building manual.
- The format of a building manual.
- The requirements for maintaining, updating, and providing access to an approved building manual.

2.1.2. Owners Corporations Amendment Act 2021

The *Owners Corporations Amendment Act 2021* initiated changes to the operation and regulation of owner's corporations in Victoria, including the following provisions:

- Maintenance plan of the property that outlines necessary repairs and replacements to the common property.
- An asset register that lists all the assets owned by the corporation.
- Copies of warranties for building components and systems.
- Plan of subdivision documents, specifications, reports, certificates, permits, notices, or orders.
- New regulations limit management contracts to a maximum of three years.

In addition, the *Owners Corporations Amendment Act 2021* introduced a five-tier system that provides different requirements based on building size. Larger corporations have more requirements, whereas smaller ones face less regulation. For example, tier 1 and 2 owner corporations must create and approve a maintenance plan. Creating maintenance plans for tiers 3, 4, and 5 is optional.

In Victoria, the tiered system for OCs is designed to regulate based on the size and complexity of the property. Under this system, larger OCs are subject to more stringent regulations and are classified in lower tiers, while smaller OCs are placed in higher tiers with less stringent requirements. In summary:

- Tier 1: More than 100 occupiable lots
- Tier 2: 51 to 100 occupiable lots
- Tier 3: 10 to 50 occupiable lots
- Tier 4: 3 to 9 occupiable lots
- Tier 5: Two-lot subdivisions or services only

2.2. Problem

In the construction industry, having access to information helps owners, building practitioners, surveyors, and regulators make informed decisions about the future maintenance and operation of buildings post-construction. Currently, in Victoria, building documentation is handled by multiple parties in different locations and is not consistently transferred to owners. This also hinders owners, government agencies, industry, and the broader community from obtaining necessary information, undermining transparency and accountability.

The Building Confidence Report, A Case for Intervention, identified several reasons why building documentation may not be fully disclosed to future building owners.[16] For instance, developers of multi-residential developments generally do not intend to maintain ongoing ownership of the building. The report also suggested that developers often engage a builder that provides the best value for money and can meet project timeframes. This can lead to limited information in the building design documentation about how design practitioners reached their conclusions.

In 2022, DTP commissioned the Nous Group to provide a report (Nous Report) on the implementation of a building manual. Forty-seven stakeholders from 19 different organisations, including industry practitioners, government departments, regulators, RBSs, building software providers, and owners corporations, participated in preparing this report. These stakeholders supported the introduction of a building manual and noted that it would increase the general awareness of a building and its components, which would benefit the maintenance, repair, and replacement of various assets and systems.

2.2.1. Asymmetric information

Asymmetric information refers to a situation where one party in a transaction possesses more information than another party. For instance, a developer or builder may have more knowledge about a building than its owner.

The Building Confidence report highlights the accessibility and suitability of construction documentation for consumers' needs as a key issue. This lack of building information can have impacts, including:

- Owners may make decisions based on incomplete or missing information about their property. For instance, without proper documentation, owners may remain unaware of the maintenance of essential safety features and potential risks.
- The absence of relevant information makes it challenging to hold industry practitioners accountable, leading to potential disputes.
- Lack of documentation impedes the formulation of effective maintenance planning and asset replacement strategies.

2.2.2. Building safety and maintenance

A complete set of building documentation encompassing all necessary information for a building's ongoing management is essential for its safety and longevity. Stakeholder feedback collected during the development of the Nous Report noted that improving the quality and content of information for owners could raise awareness about a building's elements and maintenance planning.

During the occupation phase, the absence of proper documentation can also undermine future decisions related to developing and implementing maintenance plans, asset replacement, and long-term capital expenditure forecasts, as well as carrying out necessary repairs.[17] Furthermore, incomplete documentation can complicate an owner's ability to confirm past decisions and maintain safety systems.

In Victoria, essential safety measures are regulated and must meet minimum performance requirements. They need to be regularly inspected, tested and maintained. These measures include fire doors, smoke alarms, sprinkler systems, and emergency lighting. Owners and managers often struggle to maintain these measures due to incomplete information. Introducing a manual will ensure that owners and owner's corporations have access to information related to these responsibilities.

The ABCB and the Expert Panel agree that a building manual should be accurate and stored in a manner accessible to current and future building owners and operators, those responsible for maintenance, and relevant government agencies and regulators. It further states that building manuals will be invaluable resources for building occupants, property managers, and maintenance personnel because they should

[16]The Centre for International Economics (2021), The Building Confidence Report, A Case for Intervention.
[17] Expert Panel on Building Reform (2023), Stage One Final Report to Government.

contain vital information about safety measures, emergency procedures, and ongoing maintenance requirements, thus contributing to the overall safety and functionality of buildings.

Furthermore, the Owners Corporation Network of Australia[18] noted a lack of opportunity for owner's corporations who take over the management of a building to assess the adequacy of building documentation. A building manual would provide owners and owners corporations with essential knowledge about the building's systems, components, and infrastructure. This knowledge enables informed decisions related to maintenance, repairs, and upgrades, and owners can better manage common property and address issues promptly.

2.2.3. Addressing defects

Without complete documentation, it is challenging to address building defects promptly. Accurate documentation informs timely rectification for effective maintenance and prevention of further damage. For instance, without a clear understanding of the building materials, warranty periods, performance solutions, and maintenance schedule of assets, owners might not anticipate problems until they appear, which could lead to increased repair costs.

Lack of documentation can pose challenges in identifying defects and seeking rectification from developers, builders, or trade practitioners. Moreover, the absence of building documentation can lead to transparency and accountability issues and hinder the understanding of design assumptions, performance solutions, and key safety obligations.[19]

In addition, verifying building-related decisions without accurate documentation becomes a cumbersome process that requires formal requests from local councils or the original designer. These issues become more pronounced when new owners or managers take over the ownership of buildings, while developers, builders, and surveyors move on to new projects.[20]

Cladding Safe Victoria analysis found that 168 buildings class 2 buildings (50%) out of the total funded buildings in its programme (339 as of October 2022) had defects unrelated to cladding. Some of the most common building defects are related to mould, water ingress, and balcony defects, among others.[21] The Building Confidence Report, A Case for Intervention, highlights critical issues regarding Class 2 buildings:

- Class 2 buildings, along with Class 1, are prone to defects that can affect waterproofing (38% of repair costs), roofing (16%), structural (10%), plumbing (13%), and flammable cladding (12%).
- Recent Class 2 constructions (1-4 years old) show more defects than older ones, indicating a growing issue, especially as the trend moves towards apartment living
- Defects are expensive to fix in Class 2 buildings. The report found Class 2 apartments alone account for $1.3 billion in financial cost for defects annually across Australia.

2.3. Objectives

The introduction of a building manual helps owners of newly constructed buildings by:

1. Addressing asymmetric information between building practitioners and consumers.
2. Assisting owners with the safety and maintenance of the building during occupation.
3. Supporting the timely identification of building defects and to seek rectification.

[18] The Owners Corporation Network of Australia (2021), Submission to the Australian Building Codes Board on the documentation that should be required by law to be given to owners corporations by the developer.
[19] Australian Building Code Board (2021), Building manuals Model guidance on BCR Recommendation 20.
[20] Shergold, and Weir (2018), Building Confidence: Building Ministers' Forum Expert Assessment.
21 Cladding Safe Victoria (2023), Research analysis on issues and risks associated with balcony defects.

The implementation of a building manual is tailored for Class 1b, 2, and 3 residential buildings and responds to the challenges and requirements associated with these types of buildings. In summary, this includes the following steps:

- Class 2 (apartment buildings) and Class 3 (boarding houses, hotels, etc.) are residential classes that typically involve more complex design and construction than single-dwelling Class 1a buildings.
- Although Class 1b buildings may appear less complex than larger residential buildings, a building manual can provide valuable guidance on safety, accessibility, and quality, ultimately benefiting consumers and residents, who may be more vulnerable cohorts.
- All of these residential classes often accommodate multiple occupants or share amenities, raising unique safety concerns. A building manual can help address fire safety, water egress, and other relevant issues to ensure the well-being of residents.

2.4. Options

The regulatory options explored in this RIS include the following:

- Option One: Building manual for new Class 2 buildings.
- Option Two: Building manual for new Class 2 and Class 3 buildings
- Option Three: Building manual for new Class 1b, 2, and 3 buildings.

2.4.1. Core elements for all options

As part of the regulation making processes, some core elements, outlined below, are applied to all proposed building manual regulation options.

The proposed contents of the building manual

The proposed building manual draws on existing documentation requirements under the Building Act and Building Regulations. These requirements cover critical areas, such as fire safety, structural requirements, plumbing, and electrical requirements. Compliance with these standards is important for occupant safety and building long-term durability. Therefore, it is appropriate for the contents of the draft building manual and any updates to the approved manual to align with these regulations. The proposed building manual contents can be found in **Appendix B.**

Updates to approved building manual

An approved building manual must be updated when the following works are performed:

- **Work requiring a building permit:** A building permit includes approved plans, specifications, and all relevant documentation. It is necessary for most construction work unless exempt.
- **Work on common property that requires a compliance certificate:** building work that does not require a building permit but requires a compliance certificate from plumbers, gasfitters, and electricians on common property.
- **Work on fire safety measures:** including updates to essential safety measures, maintenance schedules, maintenance determinations and records of annual reports.
- **Updates to common property assets**: including replacement of assets and related warranties on common property.
- **Plumbing and electrical safety checks** on common property.

Examples of compliance certificates

- **Electrical Compliance Certificate:** Issued by licensed electricians to ensure electrical work meets safety standards.

- **Building Compliance Certificates:** Required for structural changes or new constructions. Issued by registered building surveyors.
- **Plumbing and Gas Compliance Certificates:** Issued by licensed plumbers and gasfitters to certify compliance with plumbing and gas standards.
- **Swimming Pool or Spa Compliance:** Ensures pools and spas meet safety standards, including fencing and maintenance.

Recording the updates in the approved building manual

When work is carried out requiring a compliance certificate from licenced trade practitioners, including plumbers, gasifiers and electricians, a description of the work form and documentation is provided in an approved form by the VBA.

Annual updates to the building manual

Annual updates to the building manual must be conducted on the anniversary of its approval date. This update must use the 'annual updates form', for any work done or new documents created that year. Where relevant the 'description of the work form' and documentation must also be used for those updates.

This form will also serve as a summary document for additions to the building manual and will be provided to the VBA.

Accessible building manual format

Consistent with the ABCB Building Manual Model Guidance, and noted via the stakeholder consultation, the proposed regulations avoid specifying software applications when accessing and using a building manual.[22] Instead, it is proposed that the building manual be easily readable, in an open-file format, and accessible to all owners and owners corporations, who should not be burdened with expensive software licences or the need to maintain specialist systems.

Storage of approved building manual

The responsibility for storing and maintaining the approved building manual lies with the building owner or the owner's corporation. This ensures that those who have authorised access to a manual have access to the most up-to-date building information, allowing for readily available and transferable information.

Access to the approved building manual

The proposed Regulations provide regulators, emergency services, contractors, maintenance personnel, and service providers, such as plumbers and electricians, access to building manuals. This would inform them about the design and construction of the building, maintenance and safety history, and relevant technical details.

Table 2.1 outlines the entities that are proposed to be provided with access to the manual.

It is proposed that relevant emergency services and councils must be provided with access to the manual within 24 hours. Other relevant entities must be provided with access in a reasonable timeframe.

[22] Australian Building Code Board (2021), Building manuals Model Guidance on BCR Recommendation 20.

Table 2.1: Access to the manual

Entities	Reason	Access
Victorian Energy Safety Commission	Monitor appliances, batteries, and equipment that may pose a risk to the safety of building inhabitants and compliance.	Within 24 hours
Victoria State Emergency Service Authority	Monitor appliances, batteries, and equipment that may pose a risk to building safety and compliance.	Within 24 hours
Victoria and Australian Federal Police	Emergency investigation purposes	Within 24 hours
Chief Fire Officer (Fire Rescue Victoria and Country Fire Authority)	Emergency investigation purposes	Within 24 hours
Councils	Emergency investigation purposes	Within 24 hours
Building and trade practitioners who are engaged in or engaged in building work on buildings	They will only have access when providing services to the building to aid in completing maintenance or future work.	At a reasonable time
Homes Victoria	For class 1b or Class 3 buildings, or any building that includes a class 3 building.	At a reasonable time

Victorian Building Authority holding a copy of the building manual

The proposed Regulations require a copy of the approved building manual to be provided to the VBA, noting that the primary purpose, foremost, is to equip building owners with the necessary information. However, VBA would benefit from access to building manuals to improve their regulatory functions. This would assist it with auditing, compliance matters, building data collection, and enhancing regulatory oversight. In addition, it is proposed that the annual building manual updates be shared with the VBA.

2.4.2. Option One: Building manual for new Class 2 buildings

Class 2 buildings are recognised as being more complex due to their design, multiple occupancies, shared facilities and strata management.[23] These factors make their planning, construction, and management more challenging.

[23] Australian Building Codes Board (2022), Understanding the National Construction Code.

Given the increased complexity of class 2 buildings, access to building approval information is crucial for their management. They typically feature shared services that can impact safety and structure like fire safety systems, water, drainage, and electrical systems.

2.4.3. Option Two: Building manual for new Class 2 and 3 buildings

Class 3 buildings were included due to their similarities to Class 2 buildings and their shared residential facilities. Unlike single-dwelling Class 1a buildings, Class 3, as with Class 2 buildings, presents more complex design and construction challenges. They are designed to accommodate unrelated individuals who live together, both long-term and transiently. This includes hotels, boarding houses, and residential care facilities. Like Class 2 buildings, Class 3 buildings are subject to fire safety, accessibility, sanitation facilities, and room sizes standards to ensure the safety and comfort of short-term residents.

These buildings often require experienced property managers and maintenance personnel to handle day-to-day operations, including building managers, tenant management, maintenance, and ensuring compliance with safety standards. A building manual will assist building owners, managers, and tenants in understanding their responsibilities for maintaining essential safety measures.

2.4.4. Option Three: Building manual for new Class 1b, 2, and 3 buildings.

This option expands on the previous two options and includes Class 1b buildings, which are also residential but with unique characteristics. For example, these buildings often share common areas, such as kitchens and bathrooms, or living spaces, such as boarding houses, guest houses, and hostels. Class 1b buildings may accommodate vulnerable groups such as students, travellers, or those needing temporary shelter. Currently, these buildings do not require a building manual, so ensuring a complete set of building and maintenance documentation will help ensure that these buildings remain safe, well-maintained, and prepared for emergencies.

2.5. Option analysis

This chapter analyses the options for introducing a building manual and considers the impact of the preferred option.

As outlined in Chapter 1, the approach to analysing options for building manuals first uses a MCA framework to select the preferred option based on an analysis of how each option performs against a set of selected criteria. Following the selection of the preferred option through the MCA, a breakeven analysis is then undertaken to consider the conditions under which the benefits of the preferred option for regulatory reform will likely outweigh the costs.

2.5.1. MCA criteria

The criteria outlined in Table have been selected to assess the options for introducing building manuals in the MCA.

The MCA accounts for the direct cost impact on stakeholder groups, highlighting who bears the initial burden of the regulatory change. Where increased costs fall on builders and RBS, these costs may be passed through, to some extent, to the end consumer. Consequently, the final distribution of costs may differ from those discussed in the MCA.

Table 2.2: MCA criteria for the introduction of building manuals

Criterion	Description	Weighting
Cost criteria		**50%**
Costs to builders	The extent to which each option imposes direct compliance and administrative costs on builders, including time and effort for the builder to collate and prepare documentation.	12.5%
Costs to RBS	The extent to which each option imposes direct compliance and administrative costs on RBSs, including the time and effort required to check the completeness of the building manual against prescribed content requirements.	12.5%
Costs to building owners/ owners corporations	The extent to which each option imposes compliance and administrative costs on building owners to update and manage the approved building manual into the future. This includes the time and effort for owners/owner's corporations to update the approved building manual by recording information relevant to any building permit and non-permit works (work that requires a compliance certificate) undertaken on the building.	12.5%
Costs to government	The extent to which each option imposes costs to government in administering, monitoring and enforcing the new regulatory requirements. These costs may include: • cost of training staff and increase in the number of staff required to support monitoring and enforcement of new requirements • costs to the VBA associated with the storage and provision of copies of the building manual • stakeholder engagement and communication costs during the introduction and transition to new requirements • development of additional guidance material • cost of additional enforcement activities, including auditing any manuals or using information within manuals for other targeted enforcement activities	12.5%
Benefit criteria		**50%**
Reduced risk of building defects and associated harms	The extent to which each option will reduce the risk of building defects and associated harm by: • addressing asymmetric information between building practitioners and consumers • building public confidence in the quality and standards of construction • fewer building safety and maintenance issues through increased access to information about the building	30%
Improved efficiency of the building system	The extent to which regulatory burden and transaction costs are minimised through a reduction in additional processes to obtain information and documentation due to poor information-sharing practices.	20%
Total weighting		**100%**

2.5.2. The base case

In 2023, amendments to the Building Act introduced a building manual for prescribed classes of buildings. This requirement has not yet been formally implemented or enforced as regulations are required to prescribe:

- the classes of buildings that will be required to prepare the draft building manual
- the documents to be included within the draft building manual
- the format of the building manual
- the requirements for keeping, updating and providing access to an approved building manual

While the formal requirement for producing a building manual is yet to be prescribed in the Regulations, the documentation proposed to be incorporated into the draft building manuals is already generated throughout the building process and is in alignment with various existing regulatory requirements under the Building Act and Regulations (see Table 2.3).

Despite the generation of these documents in the base case, there is variation across the building industry concerning how this information is collected, stored and distributed to building owners after the construction has completed. This variability leads to inconsistencies in documentation quality and accessibility in the base case. Clarifying and standardising the collation of documents into a building manual, through prescribing requirements in the Regulations, will help provide consistent access to information and realise the intended benefits of improved documentation practices across the construction sector.

Furthermore, under the base case, with regards to the ongoing maintenance of buildings that require OCs management, they are expected to meet statutory obligations for owners under the Owners Corporations Act 2006, regarding:

1. A maintenance plan (tier 1, 2) (section 36)
2. Review the maintenance annually (section 39)
3. Fund the maintenance plan (section 40)
4. Repair and maintain common property (sections 4, 46 and 47)

Table 2.3: Alignment between required documentation in the building manual and the current regulatory framework

Required documentation in draft building manual	Preparation requirement under current Regulations
Design and construction approvals and documentation	Regulation 24
Additional information required by the RBS in an application for a building permit	Regulation 29
Building permit and plans	Regulation 37
Documents from RBS regarding the determination of performance solution	Regulation 38
Documents required to be submitted to Council[24]	Regulation 44
Application for occupancy permits	Regulations 186 & 192

[24] This refers to documents provided to the Council after a building surveyor has issued a building permit. The building manual will not be required to be provided to the Council unless the council requests a copy of the manual.

2.5.3. Option analysis

The following sections explain the scoring of options against each of the MCA criterion, as outlined in Table 2.2.

The base case described above is considered a point of comparison for the three options in the analysis and is, therefore, given a score of 0 against all criteria in the MCA framework.

> **Request for input from stakeholders through the RIS process**
>
> The assessment of options has been undertaken based on DTP's expectations of the likely level of effort involved in specific tasks that would be required by regulation and based on VBA data regarding the volume of buildings that might be affected. DTP invites all stakeholders with additional data or information to inform the DTP's understanding of the impact of providing that data or information during the public consultation process, which is intended to test the rationale in this RIS for the preferred option.

2.5.4. Criterion 1: Costs to builders

The scoring of each option against Criterion 1 is outlined in Table 2.4 with the rationale for the scores documented in detail following the summary of the results.

Table 2.4: Summary of scores for Criterion 1

Criterion	Weight	Option One *New Class 2 buildings*	Option Two *New Class 2 and 3 buildings*	Option Three *New Class 1b, 2 and 3 buildings*
Costs to builders	12.5%	-2	-2.5	-2.75
Weighted score		**-0.25**	**-0.31**	**-0.34**

2.5.4.1. Option One: Building manual for new Class 2 buildings

Compared to the base case, introducing a building manual under Option One will create an obligation for a person who intends to apply for an occupancy permit for a newly constructed Class 2 building (such as the builder or developer) to prepare a draft building manual. This draft building manual will require documentation outlined in **Appendix B**.

Under the base case, most of the documentation is already required for the building approvals process. For Option One, the main cost to builders will be the additional time and effort to gather and organise the information into a draft building manual. This may increase administrative burden as builders must compile data and coordinate with designers, developers, contractors, and licensed trades to provide all necessary information to the RBS.

Opportunities to streamline these processes may be identified over time, reducing costs to builders. However, given this is a new process with some uncertainty, this has not been accounted for in this analysis.

While the builder is expected to have collected the required documentation and contact details at various stages throughout the build, some costs may be associated with organising this existing documentation into a draft building manual. Based on estimates outlined in the Building Confidence Report, this analysis estimates

that the consolidation process may take approximately 30 hours when applying for an occupancy permit.[25] However, the time and effort associated with organising documentation could vary significantly based on the nature of the building and the construction work.

There may also be an increase in the time that building practitioners take to prepare documentation relative to the base case if builders know that the information may be accessed more frequently. This could incentivise building practitioners to improve the accuracy or quality of the information provided for inclusion in the building manual if they are mindful that other parties may read, use and assess this information. This is particularly the case if building manuals are to be stored by the VBA, as increased regulatory oversight may result in higher rates of compliance with the proposed Regulations than would otherwise be the case, with corresponding increases in both the costs to builders and the potential benefits.

While the additional effort per new Class 2 building is likely to be small (approximately $4,500 per Class 2 building based on an assumption of 30 hours of preparation time), the total cost to builders across Victoria will be larger given the number of building manuals being prepared (approximately 550 new manuals on average per year).[26] Considering the overall scale of this requirement Option One is awarded a score of -2 relative to the base case (total cost burden approximately $2.5 million annually).

2.5.4.2. Option Two: Building manual for new Class 2 and 3 buildings

In addition to the costs incurred in Option One, Option Two expands the requirement for building manuals to be prepared for Class 3 in addition to Class 2 buildings. This means that approximately 40 further building manuals would be prepared each year, imposing additional costs on the builders responsible for their preparation.[27]

Compared to Class 2 buildings, there is more variation in how documentation is prepared, collected, and stored during the construction of Class 3 buildings. Due to the broader range of Class 3 building types, including hotels, boarding houses, guest houses, hostels or ‘care-type’ facilities, there may be different regulatory requirements or unique design considerations that contribute to differing private incentives of builders to store and maintain documentation. For example, large hotels or care-type facilities often have strong incentives to maintain detailed documentation. This is due to regular safety checks and the need for multiple staff members to be well-informed about the building and its amenities.

Conversely, small-scale boarding houses or hostels with limited occupancy and basic facilities may have weaker or fewer incentives to store comprehensive information. While they might keep basic or essential records, the level of documentation may not be as extensive. Therefore, introducing a building manual for Class 3 buildings would likely be more burdensome for some building practitioners who do not currently store and maintain the required information under the base case. The additional effort required would vary depending on the extent of existing documentation prepared.

Noting the likely variance discussed above, the analysis assumes, on average, there would be some additional time and effort associated with preparing building manuals and requesting information from contractors and other building practitioners for Class 3 buildings compared to Class 2 buildings. The scenario presented in this analysis assumes that it would equate to an additional one day (7.5 hours) of time for Class 3 buildings – or 37.5 hours in total (compared to 30 hours for Class 2 buildings). This equates to approximately $5,700 per Class 3 building manual, based on a wage rate of $151 for builders (including on-costs and overheads as per the Department of Treasury and Finance (DTF) *Regulatory Change Measurement Manual*).[28]

While the effort of builders associated with the preparation of individual Class 3 building manuals may be higher than for individual Class 2 building manuals, the number of Class 3 buildings is much lower (less than a

[25] The Centre for International Economics (2021), The Building Confidence Report, A Case for Intervention, page 81.
[26] See Section 2.7.1 for an explanation of the method used to estimate new Class 1b, 2 and 3 buildings each year.
[27] See Section 2.7.1 for an explanation of the method used to estimate new Class 1b, 2 and 3 buildings each year.
[28] See Section 2.7.1.1 for a full explanation of the method used.

tenth of the number of Class 2 buildings). Therefore, Option Two receives a score of -2.5 relative to the base case, with an incremental score of -0.5 attributed to the preparation of Class 3 building manuals compared to -2 for Class 2 building manuals. This equates to an additional $240,000 per year on average.
(Total cost burden approximately $2.74 million annually)

2.5.4.3. Option Three: Building manual for new Class 1b, 2 and 3 buildings

Option Three adds to the costs incurred in Option Two by extending the building manual requirement to Class 1b buildings. According to VBA building permit data for Class 1 b buildings, this would result in approximately 30 additional building manuals being prepared each year (on average), imposing additional costs on the responsible builders.

Like Class 3 buildings, there is some variation in how documentation is currently prepared, collected and stored for Class 1b buildings. However, Class 1b buildings are smaller and less complex. A Class 1b building must have a floor area of less than 300m2 and fewer than 12 people living in it. As a result, while the introduction of the building manual for Class 1b buildings may be more burdensome in some cases due to it not being common practice, this burden may be offset by the fact that the building documentation for Class 1b is likely to be more straightforward given their lower complexity. This RIS estimates that each manual would impose approximately $2,300 to prepare for a Class 1b building, based on an assumption of 15 hours of preparation time (half that of a Class 2 building manual).[29]

Considering these factors, Option Three would likely only contribute a slight incremental increase to the costs already included within Option Two. As such, Option Three is awarded a score of -2.75 relative to the base case. This reflects an incremental cost increase of 0.25 compared to Option Two, or $77,000 per year on average (total cost burden approximately $2.82 million annually).[30]

2.5.5. Criterion 2: Costs to RBSs

The scoring of each option against Criterion 2 is outlined in Table 2.5, with the rationale for the scores documented in detail following the summary of the results.

Table 2.5: Summary of scores for Criterion 2

Criterion	Weight	Option 1 *New Class 2 buildings*	Option 2 *New Class 2 and 3 buildings*	Option 3 *New Class 1b, 2 and 3 buildings*
Costs to RBSs	12.5%	-0.75	-1.25	-1.5
Weighted score		**-0.09**	**-0.16**	**-0.19**

2.5.5.1. Option One: Building manual for new Class 2 buildings

Under Option One, introducing building manuals for Class 2 buildings obligates RBSs to check that all the required documentation has been included in the draft building manual. Compared to the base case, where RBSs are not required to perform this task, there would be some associated costs regarding the opportunity cost to RBSs. This is because they would likely need to invest a small amount of time and effort to confirm the necessary information. However, as above, it is noted that opportunities to streamline the processes may be identified over time, reducing costs to RBSs. However, given this is a new process with some uncertainty, this has not been accounted for in this analysis.

[29] See Section 2.7.1.1 for a full explanation of the method used.
[30] Numbers may not add due to rounding. See Figure 3 for an explanation of the approach to rounding in this report.

Given that the focus for RBSs is solely on checking the completeness of the draft manuals rather than assessing the accuracy of the documentation, DTP expects that up to one day will be required per draft building manual. While the number of draft building manuals (approximately 550 per year for Class 2 buildings) requiring approval may place upward pressure on workload and RBS capacity, DTP expects these flow-on effects across Victorian RBSs to be minimal, given the relatively small size of the administrative task. Reviewing one Class 2 building manual is assumed to cost an RBS approximately $1,900, based upon an hourly RBS wage of $260 per hour.[31]

Considering these factors, Option One is assigned a score of -0.75 relative to the base case. This reflects the small additional administrative cost to RBSs associated with checking the completeness of the draft building manuals for Class 2 buildings (total cost burden approximately $1.1 million annually).

2.5.5.2. Option Two: Building manual for new Class 2 and 3 buildings

In Option Two, which adds to the costs of Option One by introducing building manuals for Class 3 buildings in addition to Class 2 buildings, the incremental administrative costs to RBSs associated with checking the presence of the documentation in the draft manual are still expected to be minimal. DTP does not expect that the effort taken by RBSs to approve the draft building manual would vary across Class 2 and 3 buildings, given they are of a similar level of complexity. As mentioned above, the analysis assumes a unit cost of $1,900 to review one Class 3 building manual. Therefore, relative to Option One, the only change across options is the number of building manuals required to be prepared.[32]

With approximately 40 additional building manuals to be checked each year for Class 3 buildings, RBSs may need to approve more manuals than in Option One, which may increase the total opportunity cost associated with this requirement. However, given that the primary responsibility remains checking the completeness of the draft manual rather than evaluating its quality or accuracy, the incremental impact across Victorian RBSs is expected to remain relatively small (an additional $82,000 per year across the building stock). For this reason, Option Two is awarded a slightly higher score of -1.25 relative to the base case (Total cost burden of approximately $1.18 million annually).

2.5.5.3. Option Three: Building manual for new Class 1b, 2 and 3 buildings

Option Three expands the requirement for a building manual to be prepared for Class 1b buildings in addition to Class 2 and 3 buildings. As with Option Two, the key difference between options is the number of draft building manuals that need to be checked by surveyors. Compared to Option Two, approximately 30 further building manuals must be checked each year for Class 1b buildings. Given that the complexity of Class 1b buildings is often much lower, it also assumed that it would take the RBSs half the time to approve the draft building manual. Reviewing one Class 1b building manual would cost an RBS approximately $1,000.[33]

The increase in the number of building manuals requiring preparation under Option Three represents an increase of approximately 5 per cent (30 relative to 590 manuals prepared under Option Two). The cost of reviewing these manuals would amount to an additional $33,000 per year. This means that RBSs would not experience a significant increase in regulatory burden associated with reviewing these additional manuals under Option Three relative to Option Two. The broader impact on an RBS's workload and costs would remain minimal, as this burden will be shared across Victorian RBSs. For this reason, Option Three receives a score of -1.5 relative to the base case. This indicates a slight cost increase between Options 2 and 3 compared to the more significant increase between Options 1 and 2 (total cost burden approximately $1.22 million annually).

[31] The value for RBS wages is derived from the 2017 Building Regulations RIS and is inflated to 2024 Australian Dollars.
[32] See Section 2.7.1.2 for full method.
[33] See Section 2.7.1.2 for full method.

2.5.6. Criterion 3: Costs to building owners/owners corporations

The scoring of each option against Criterion 3 is outlined in Table 2.6, with the rationale for the scores documented in detail following the summary of the results.

Table 2.6: Summary of scores for Criterion 3

Criterion	Weight	Option 1 *New Class 2 buildings*	Option 2 *New Class 2 and 3 buildings*	Option 3 *New Class 1b, 2 and 3 buildings*
Costs to building owners/ owners corporations	12.5%	-7	-7.5	-7.75
Weighted score		**-0.88**	**-0.94**	**-0.97**

The introduction of the building manual is intended to be implemented across certain classes of mixed-use buildings. These buildings involve diverse management scenarios, which vary in nature depending on the specific building and its purpose. When considering the impacts of the options on owners corporations, the analysis focuses on unlimited owners corporations responsible for managing common property. This is because limited owner's corporations only apply to specific lots (as outlined in sections 27B and 27C of the *Subdivision Act 1988*). It will be the responsibility of unlimited owners corporations to manage a building manual in the prescribed buildings.

2.5.6.1. Option One: Building manual for new Class 2 buildings

Compared to the base case, under Option One, building owners would incur ongoing costs in terms of time and effort required to store and update the building manual. Under Option One, the approved building manual will need to be updated through the completion of an "update to Approved Building Manual Form" and, which will record any updates to the building, as outlined in **Appendix B**. Some works that will also require a description in a form approved by the VBA (for example plumbing work).

Class 2 buildings can be complex to maintain, given their size and number of occupants. They also contain amenities for shared living, including elevators, electrical, plumbing, heating, cooling and fire safety systems. As such, owners or owners corporations will be required to update the building manual more frequently than other less complex types of buildings. In addition to higher frequency, the information to be captured for Class 2 buildings may be more detailed and time-consuming to document accurately. Here, both frequency and complexity drive up costs for Class 2 buildings relative to more straightforward building classes.

DTP consultation with a targeted sample of stakeholders during the preparation of this RIS yielded mixed responses concerning the level of effort required by building owners/owners corporations to update the manual. Although the proposed Regulations will only need the approved building manual to be updated once a year through a prescribed update annual form, most owner's corporation representatives stated that they would likely update the manual iteratively throughout the year.

One owner's corporation representative estimated this could amount to approximately one hour of additional effort per week (52 hours annually) – or approximately one week per year. If 55% of people updating the manual are professional property managers (and 45% are not professionals), it costs approximately $3,000 annually to update a Class 2 building manual.[34] This has been used as a conservative assumption in this analysis as this effort will likely vary in practice.

[34] See Section 2.7.1.3. for full method.

This ongoing responsibility would result in costs being imposed on building owners relative to other stakeholders, scaling from $1.6 million in the first year to $16.3 million in year 10 of the analysis (reflecting growth in the stock of buildings that have been built since the requirement to prepare a manual has come into effect). Given the ongoing nature of these costs (compared to the one-off cost associated with preparing the draft building manual), Option One is assigned a cost of -7 relative to the base case (total cost burden approximately $9.0 million annually).

2.5.6.2. Option Two: Building manual for new Class 2 and 3 buildings

Similarly, under Option Two, the obligation to maintain and update the manual over the building's lifespan will require an ongoing investment of time and effort from building owner or owners corporation. This cost would be higher than Option One as building manuals would now be required for Class 3 and 2 buildings.

Class 2 and 3 buildings are similar in complexity, so it is assumed that building manuals will be updated at a similar frequency and to a comparable level of detail. For some Class 3 buildings, there may be strong private incentives to ensure higher-quality builds to attract ongoing business (for example, hotels appealing to potential guests through high-quality finishes and amenities). In these cases, fewer ongoing building permits and non-permit work may be required, which may moderate the frequency of updates.

However, this is likely to be offset by the fact that these Class 3 buildings have private incentives to ensure these high-quality amenities are well maintained on an ongoing basis (for example, hotels would likely want to preserve these high-quality finishes and amenities over time to attract business and safeguard the health and wellbeing of their guests), which may require more frequent building work and safety checks relative to other building classes. For this reason, this analysis assumes that building manuals for Class 3 buildings would also increase workload by an additional hour per week, mirroring the costs for Class 2 buildings (both in terms of time and building manager wage). Accordingly, the yearly costs of updating the manual are approximately $3,000 for a Class 3 building.

Therefore, any additional costs to building owners associated with Option Two, over and above Option One, will reflect the increase in the total economy-wide burden on owners related to ongoing maintenance of an additional 40 building manuals per year (leading to additional costs that range from $124,000 in year one to $1.2 million in year 10 of the analysis). For this reason, Option Two is awarded a score of -7.5 relative to the base case (total cost burden of approximately $9.68 million annually).

2.5.6.3. Option Three: Building manual for new Class 1b, 2 and 3 buildings

Option Three expands the requirement for building manuals to include Class 1b buildings alongside Class 2 and 3. Building owners and owner corporations would still face ongoing costs in terms of time and effort to update the manual.

To the extent that Class 1b buildings are less likely than Class 2 and 3 buildings to have dedicated building managers with professional expertise, it could be the case that some building owners require more time, effort and support in preparing the manual. However, this effect may be offset by guidance material and the prescribed update form intended to support owners in complying with their obligations under the proposed Regulations.

Given the lower complexity of Class 1b buildings, the building manual for Class 1b buildings would likely be updated less frequently than for Class 2 and 3 buildings. This analysis assumes that the cost associated with updating the manual would be half, approximately an additional hour every second week or approximately 26 hours annually. Accordingly, the yearly costs of updating the manual are approximately $1,500 for a Class 1b building.

Considering the number of new Class 1b buildings constructed each year (approximately 30) relative to Class 2 and 3 buildings (approximately 590 in total), the incremental costs associated with expanding to Class 1b buildings under Option Three are likely to be minor, increasing from $50,000 in the first year of analysis to

$504,000 in year 10. Option Three is therefore awarded a score of -7.75 relative to the base case, only marginally higher than the cost to owners and owners corporations associated with Option Two (total cost burden approximately $9.96 million annually).

2.5.7. Criterion 4: Costs to government

The scoring of each option against Criterion 4 is outlined in Table 2.7, with the rationale for the scores documented in detail following the summary of the results.

Table 2.7: Summary of scores for Criterion 4

Criterion	Weight	Option One *New Class 2 buildings*	Option Two *New Class 2 and 3 buildings*	Option Three *New Class 1b, 2 and 3 buildings*
Costs to government	12.5%	-0.25	-0.25	-0.25
Weighted score		**-0.03**	**-0.03**	**-0.03**

2.5.7.1. Option One: Building manual for new Class 2 buildings

Relative to the base case, introducing a building manual for Class 2 buildings would require the VBA to undertake additional administration and monitoring activities. An increase in VBA costs could be associated with compliance activities for the building manual, including audits and inspections. This would reflect an opportunity cost to Government in the form of time spent monitoring and enforcing building manuals rather than other areas of regulatory oversight. The building manual is not assumed to add to business-as-usual audit and inspection costs, given that it is intended that the VBA will store and have access to approved building manuals which could lead to efficiencies when assessing compliance. The number of audits or inspections is not expected to increase in direct response to the proposed regulatory changes. Additional up-front costs will be associated with the storage of building manuals by the VBA. This may involve upgrading and maintaining IT systems over time. While a small transitional cost may be needed to create a platform for storing building manuals, the VBA has advised that their current IT system can meet additional storage demands. It is therefore expected that most costs will be absorbed.

The government would also incur one-off costs associated with communicating the new requirement to industry and any initial efforts to support builders, RBSs, owners and owners corporations to understand and comply with their new obligations. This could include education and communications campaigns, the development of guidance material, or time spent responding to queries via phone or email.

Relative to the costs to other stakeholders, the costs to government associated with administration and enforcement are expected to be negligible (approximately $450,000 in present value (PV) terms over the analysis period, or 0.04 per cent of total costs – see section 2.7.1). For this reason, Option One has been awarded a score of -0.25 relative to the base case. This reflects a minimal increase in government costs associated with increased regulatory activity.

2.5.7.2. Option Two: Building manual for new Class 2 and 3 buildings

With the inclusion of Class 3 buildings under Option Two, the costs to the Government could marginally increase compared to Option One alongside the number of regulated parties. However, an increase of 40 manuals is not likely to materially change the up-front costs, and the number of audits/inspections is not anticipated to rise due to the proposed changes. For this reason, the expense change between options for this criterion is expected to be negligible. Costs to the Government, therefore, remain at an estimated $450,000 in

PV terms over the analysis period. As such, Option Two has also been awarded a score of -0.25 relative to the base case. This reflects a very minor cost to Government relative to other stakeholders.

2.5.7.3. Option Three: Building manual for new Class 1b, 2 and 3 buildings

As with Option Two, expanding the building manual requirement to include Class 1b alongside Classes 2 and 3 could incrementally increase costs to government. Given the small number of additional building manuals (an increase of 5 per cent), this analysis does not suggest that costs would change materially between Options 2 and 3. Therefore, Option Three has also been awarded a score of -0.25 relative to the base case. This, again, reflects a minor cost to Government ($450,000 in PV terms over the analysis period) relative to other stakeholders.

2.5.8. Criterion 5: Reduced risk of building defects and associated harms

The scoring of each option against Criterion 5 is outlined in Table 2.8, with the rationale for the scores documented in detail following the summary of the results.

Table 2.8: Summary of scores for Criterion 5

Criterion	Weight	Option One *New Class 2 buildings*	Option Two *New Class 2 and 3 buildings*	Option Three *New Class 1b, 2 and 3 buildings*
Reduced risk of building defects and associated harms	30%	3	5	6
Weighted score		**0.75**	**1.25**	**1.5**

2.5.8.1. Option One: Building manual for new Class 2 buildings

Under Option One, the requirement for building manuals for new Class 2 buildings would contribute to reducing the risk of building defects and associated harms by addressing asymmetric information between building practitioners and building owners and encouraging stakeholders to promptly address defects before they get worse or are out of warranty. This is anticipated to occur through the provision of comprehensive and accessible documentation that can provide transparency and knowledge to building owners regarding the construction, maintenance and safety aspects of the building.

Increased access to information allows building owners to make more informed decisions based on improved knowledge of the building's quality and history of compliance with construction standards. This can build public confidence in the building industry by increasing building owners' trust in the construction process and the quality of buildings. This increased confidence benefits both the building industry and the community.

Building practitioners may become more compliant with building standards if they believe that information and documentation regarding their work will be reviewed and used more frequently. The expectation of review may motivate building practitioners to ensure their work meets the required standards, thereby preventing defects.

Option One may also lead to fewer ongoing building and maintenance issues by providing a centralised resource that contains important details about the building’s systems, materials and necessary maintenance procedures. This accessibility may enable building owners to address potential issues proactively and implement timely maintenance practices. It may also prevent the risk of harm to people, property and the environment by reducing defects and safety issues.

However, the degree to which documentation is already prepared and collated under the base case for Class 2 buildings may impact the magnitude of benefits associated with Option One. While the preparation of documentation may be common practice among builders, this analysis assumes that access to this information will improve and the likelihood that information is consistently provided to owners and then maintained will increase, generating moderate benefits to the broader community. For this reason, Option One receives a score of 3 relative to the base case.

2.5.8.2. Option Two: Building manual for new Class 2 and 3 buildings

Option Two would add to the benefits of Option One, further reducing the risk of building defects and associated harms. By expanding the requirement for building manuals to include Class 3 buildings, Option Two provides incremental benefits associated with the increased preparation and maintenance of building manuals each year. This ensures that a broader range of complex building types are documented in detail.

Compared to Class 2 buildings, documentation practices may be less consistent across Class 3 buildings given varying private incentives to prepare this documentation under the base case (for example, where there are strong private incentives for buildings such as hotels and care-type facilities versus weaker or fewer private incentives for small-scale boarding houses or hostels). Given this variation and embedding more consistent documentation practices, the likelihood that the building manual will reduce the risk of defects relative to the base case is higher per Class 3 building than for each Class 2 building.

However, in scoring Option Two against Option One, the overall increase in benefit for each manual is offset by the fact that there are approximately four times fewer Class 3 buildings than Class 2 buildings. For this reason, Option Two receives a score of 5 relative to the base case, representing an incremental increase of 2 points relative to the benefits contributed by Class 2 buildings.

2.5.8.3. Option Three: Building manual for new Class 1b, 2 and 3 buildings

Option Three would enhance Option Two's benefits of reducing the risk of building defects and associated harms by ensuring that documentation is prepared and collated for a broader range of building types.

As with Class 3 buildings, it is assumed that documentation is retained less frequently for Class 1b and represents a larger practice change than Option One compared to the base case. However, the scale of the potential benefits is counterbalanced by the fact that Class 1b buildings are much simpler than Class 2 and Class 3 buildings and, therefore, less likely to have significant safety or maintenance issues. There are also half as many new Class 1b buildings as Class 3 buildings.

Based on these considerations, Option Three is awarded a score of 6 relative to the base case. This indicates an incremental increase of 1, compared to an increase of 2 for Class 3 buildings and an increase of 3 for Class 2 buildings.

2.5.9. Criterion 6: Improved efficiency of the building system

The scoring of each option against Criterion 6 is outlined in Table 2.9, with the rationale for the scores documented in detail following the summary of the results.

Table 2.9: Summary of scores for Criterion 6

Criterion	Weight	Option One *New Class 2 buildings*	Option Two *New Class 2 and 3 buildings*	Option Three *New Class 1b, 2 and 3 buildings*
Improved efficiency of the building system	20%	2	4	5
Weighted score		**0.5**	**1**	**1.25**

2.5.9.1. Option One: Building manual for new Class 2 buildings

Option One aims to enhance the efficiency of the building system by centralising important information on Class 2 buildings into a comprehensive building manual. This is expected to yield benefits, when stakeholders need to access and utilise building documentation.

Under the base case, the absence of a building manual can lead to time-consuming searches for documents across multiple sources or reliance on fragmented documentation. This consumes time and resources and poses challenges for parties involved in resolving issues or making repairs in a timely manner. Delays and complications may arise when an owner's corporation cannot determine the appropriate course of action due to the lack of documentation.

Introducing a building manual through Option One could address some inefficiencies, providing new owners with easier access to information about a building's design, construction, and ongoing maintenance. Improved information sharing by preparing building manuals may also assist RBSs and regulators. By providing access to relevant documentation regarding the construction of the building and maintenance activities undertaken, audits and building inspections can be conducted more efficiently. This includes providing access to emergency services, councils, building practitioners and tradespeople who may rely on this resource.

In addition, Option One introduces a standardised format for building manuals, offering further efficiency benefits. Prescribed details and forms guide the content and updates of the manual, ensuring consistency and ease of use across all building manuals prepared. This standardisation enhances the navigation and retrieval of information for all users, including future owners, building practitioners, RBSs and regulators.

Consultation with the Victorian Strata Community Association (Vic) yielded mixed responses on the scale of efficiency benefits to owner's corporations. In some cases, where there is poor documentation handover under the base case (see section 2.5.2), owner's corporation managers agreed that there may be moderate time savings associated with any reductions in the time required by owner's corporations to:

- search for documents, given that the manual should include all information regarding building work
- follow up with building practitioners, given that the manual will include their details
- read and interpret plans, given that the manual will be a well-formatted and clear document
- hand over documents to new owners if there is a change in building ownership.

In contrast, in instances where documentation handover is effective under the base case some owner's corporations managers questioned the end user value and suggested that any benefit from the manual would be marginal. Given the variation in documentation handover under the base case, there is some uncertainty regarding the potential extent of any time savings.

The Victorian Strata Community Association (Vic) also noted that the building manual would aid and support the statutory obligations for owners to have:

1. A maintenance plan (tier 1, 2) section 36)
2. Review the maintenance annually (section 39)
3. Fund the maintenance plan (section 40)
4. Repair and maintain common property (sections 4, 46 and 47)

For Option One, much of the information is already prepared and collected for Class 2 buildings under the base case and this limits the scale of potential benefits. However, the efficiency gains from requiring manuals to be prepared based on a standardised manner is still beneficial given the number of and assumed growth in Class 2 buildings in Victoria. For this reason, Option One is awarded a score of 2 relative to the base case.

2.5.9.2. Option Two: Building manual for new Class 2 and 3 buildings

Option Two is expected to improve information-sharing practices and associated efficiency benefits by expanding the requirement for building manuals to include Class 3 buildings. Although Class 3 buildings are similar in complexity to Class 2 buildings, the documentation practices for Class 3 buildings may sometimes vary in terms of their frequency and level of detail. This is often driven by private incentives to maintain and store information.

For instance, large hotels or care-type facilities may have strong private incentives to keep detailed documentation due to regular safety checks or the need for multiple staff members to be well-informed about the building and the maintenance of its amenities. In contrast, a small-scale boarding house or hostel with limited occupancy and basic facilities may have weaker private incentives to store comprehensive information on the building. While basic or essential records may be in place, the documentation and information storage level may not be as extensive in some cases.

Option Two is expected to yield higher efficiency benefits per manual prepared for stakeholders who frequently interact with Class 3 buildings compared to Class 2 buildings by making building manuals mandatory. However, the incremental benefit increases between Options 1 and 2 is limited by the lower number of Class 3 buildings. Class 3 buildings are approximately four times less common than Class 2 buildings. As a result, Option Two is awarded a score of 4.

The score of 4 highlights the additional benefits of addressing Class 3 buildings, which face unique safety and maintenance challenges. These include short-term accommodations such as hotels and boarding houses that often house vulnerable populations. While these buildings are fewer in number, their inclusion is essential due to the high-risk and complex environments they present, which justifies a higher score compared to Option One.

2.5.9.3. Option Three: Building manual for new Class 1b, 2 and 3 buildings

Option Three proposes expanding the requirement to include Class 1b buildings and Class 2 and 3 buildings. Like Class 3 buildings, the extent of documentation currently prepared for Class 1b buildings varies. Some Class 1b buildings may have comprehensive records and documentation, particularly those constructed by government entities or subject to specific regulatory requirements. In contrast, other Class 1b buildings, especially those developed by individual or smaller-scale builders, may have limited documentation practices.

Expanding the requirement for building manuals to include Class 1b buildings aims to address this variability and improve documentation practices across a broader range of buildings. By including all three classes, Option Three provides the most comprehensive approach to information sharing and efficiency benefits among the options considered.

However, the incremental increase in efficiency between Options 2 and 3 is smaller than the increase observed between Options 1 and 2. This can be attributed to several factors, including the smaller number of new Class 1b buildings and their lower complexity. This means the information in the building manuals for Class 1b buildings would likely be utilised less frequently than for other building classes. As a result, the overall efficiency benefits gained per building manual for Class 1b buildings may be comparatively lower.

Considering these considerations, Option Three is awarded a score of 5, indicating an incremental increase of 1 relative to Option Two. This score reflects the additional efficiency benefits gained from including Class 1b buildings, albeit to a lesser extent than the benefits derived from the requirements for Class 2 and 3 buildings.

2.6. Preferred option

Table 2.10 summarises the MCA scores assigned to the criteria, reflecting the discussion throughout this chapter of the RIS. The scores are weighted as per the framework outlined in Table 2.2, to produce a weighted score for each option.

The MCA results determine that Option Three is the preferred option for regulatory reform, as it has the highest weighted score of all options considered. Under this option, requirements to prepare, review, and update building manuals will be prescribed for new Class 1b, Class 2, and Class 3 buildings.

Table 2.10: Summary of MCA scores for building manuals

Criterion	Weight	Option One *New Class 2 buildings*	Option Two *New Class 2 and 3 buildings*	Option Three *New Class 1b, 2 and 3 buildings*
Cost criterion				
Costs to builders	12.5%	-2	-2.5	-2.75
Costs to RBSs	12.5%	-0.75	-1.25	-1.5
Costs to building owners/ owners corporations	12.5%	-7	-7.5	-7.75
Costs to government	12.5%	-0.25	-0.25	-0.25
Benefit criterion				
Reduced risk of building defects and associated harms	30%	3	5	6
Improved efficiency of the building system	20%	2	4	5
Total weighted score		**0**	**0.8**	**1.2**

2.7. Impact of the preferred option

Following selecting the preferred option (Option Three) through the MCA, this section of the RIS estimates its cost impact. After quantifying the costs, a breakeven analysis is conducted to determine whether the preferred options benefits outweigh the estimated costs.

2.7.1. Costs associated with the preferred option

Implementing the preferred option will create costs for builders, building owners/owners corporations, RBSs and Government. These costs are quantified where possible and allocated to the stakeholder that incurs the time burden of each cost. This captures the value of the resources used to comply with the regulatory change, which could otherwise be spent on other productive work or leisure. These costs are summarised in Table 2.12 and explained in further detail in the following sections. A detailed list of assumptions is outlined in **Appendix C.**

Based on the scenario used in this analysis, the total cost associated with the introduction of a building manual for Class 1b, 2 and 3 buildings is $108.1 million (present value (PV))[35] over the 10-year analysis period.[36]

Each cost is estimated on a per-building basis and scaled according to the estimated volume of in-scope new buildings completed under each option over the analysis period. The methodology for estimating the projected annual number of new buildings by class for this analysis is as follows:

- **Calculate total annual dwellings:** forecasts of total new annual dwellings in Victoria are calculated based on the 15-year average from the Victoria in Future total dwellings dataset.[37] This forecast assumes constant dwelling growth to 2036, although it does not take into account other factors such as population growth and changes in government policy.
- **Differentiate between house and non-house dwellings:** the total number of dwellings is divided between detached houses and 'non-house' dwellings (such as townhouses and apartments. This split is approximated using data from the past decade on residential property purchases in Victoria based on Australian Bureau of Statistics (ABS) building activity data.[38]
- **Estimate the number of non-house buildings**: to estimate the number of buildings in multi-dwelling blocks, the total number of non-house dwellings is divided by an average of 59 units per building.[39]
- **Classify non-house buildings:** The split between new Class 1b, 2, and 3 buildings is estimated using VBA data on new building permits issued between 2014 and 2024.[40]

This yields the following estimates of annual additions to the building stock by Class:

Table 2.11: Estimated annual builds by NCC Class

Class	Builds[41]
Class 1b	30
Class 2	550
Class 3	40
Total	620

As in the MCA, the following analysis accounts for the initial burden of regulatory changes on stakeholder groups. However, costs incurred by builders and RBSs may be passed on to the end consumer. Costs to government will also have to be covered through higher revenues or lower expenditure elsewhere. Consequently, the final distribution of costs may differ from those outlined below.

[35] All figures reported over the 10-year analysis period are reported in present value terms at a 4% discount rate, which applies to the first analysis year onwards.
[36] While the costs in this RIS have been calculated over a 10-year period, it should be noted that implementation of the preferred option will occur through amendments to the Building Regulations 2018, which will sunset (expire) in 2028. This means the proposed building manual will only be in place for a 3-year period, before the entire Building Regulations are reviewed and remade. At that time, the building manual requirement will be reassessed for its necessity, effectiveness and impact for another subsequent 10-year regulatory period.
[37] Department of Transport and Planning (2023), Victoria in Future.
[38] Australian Bureau of Statistics (2024), Total Value of Dwellings.
[39] Jenner and Tulip (2020), The Apartment Shortage. *Economic Research Department, Reserve Bank of Australia-Research Discussion Paper*, *4*.
[40] As Class 3 buildings are not defined as 'residential', the estimate for new annual buildings is based on the average yearly quantity of new building permits over the past ten years. This is the same approach used to apportion new other residential buildings between Class 1b, 2 and 4 buildings. Data was supplied by the VBA.
[41] Note that the estimated number of buildings is rounded to the nearest 10.

Table 2.12: Summary of total costs to stakeholders (PV over the ten-year lifespan of regulations)

Cost	Estimated value (PV)
Builders	
Cost of preparing building manuals	$22.9 million
RBSs	
Cost of reviewing inspections	$9.6 million
Building owners/owners corporations	
Cost of updating business manuals	$75.7 million
Government	
Development of educational/guidance materials	$65,000
Cost of storing manuals	$385,000
Total	**$108.1 million**

2.7.1.1. Costs to builders

The introduction of a mandatory building manual is expected to impose costs on builders associated with an increase in the administrative burden required to prepare the draft building manual. This primarily represents the time and effort required by the occupancy permit applicant (such as a builder or project manager) to collate the documentation into a centralised manual.

Under the base case, this analysis assumes that most of the documentation to be included in the building manual is already prepared and stored throughout the broader building process. Therefore, the incremental burden imposed on builders results from organising existing documentation, whether developed internally or received from subcontractors, into the draft building manual for submission to the RBS.

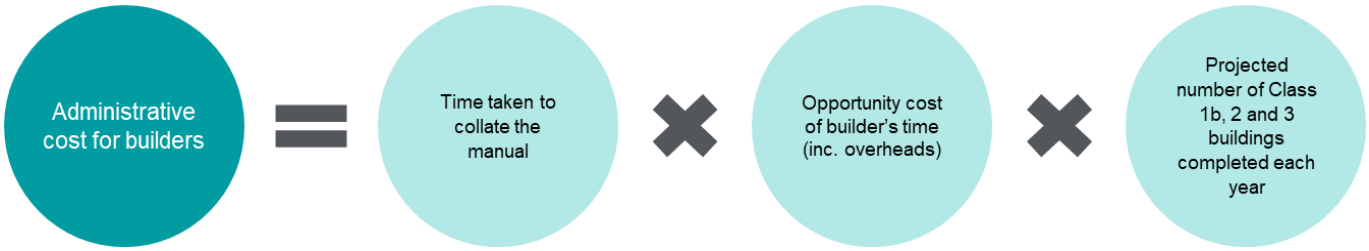
Based on the assumption used by the Centre for International Economics (CIE) in the 'Building Confidence Report' for the ABCB, it is expected that a builder will take approximately 30 hours to collate a building manual for a Class 2 building.[42] This estimate is halved to 15 hours for a Class 1b building, reflecting the assumption that the collation process is likely to be simpler for this class of building, and increased to 37.5 hours for a Class 3 building, which reflects an assumption that there may be some information gaps to be filled through the collation process for this Class of building. The builder's time has been valued using the average hourly wage for a building practitioner.[43] This represents the opportunity cost to the building practitioner of any forgone building work that would have been undertaken instead of preparing the manual. Based on these assumptions, the average cost per building manual collated is expected to be $2,300 for a Class 1b building, $4,500 for a Class 2 building, and $5,700 for a Class 3 building.

Under the preferred option, approximately 30, 550 and 40 new building manuals will be compiled each year across Class 1b, 2 and 3 buildings, respectively.[44]

[42] The Centre for International Economics (2021), The Building Confidence Report, A Case for Intervention.
[43] This wage is consistent with the Department of Transport and Planning's RIS for Continuing Professional Development for Building and Plumbing Practitioners (CPD RIS). This wage is scaled by 1.75 to capture overheads and oncosts, as per the Regulatory Change Measurement Manual and inflated to 2024 Australian Dollars.
[44] Based on the method outlined in Section 2.7.1.

Based on these inputs and assumptions, the preferred option is expected to impose additional costs on builders of approximately $22.9 million (present value over the 10-year analysis period) or $2.8 million on average each year. Of this total cost, $77,000 per year is attributed to Class 1b Buildings, $2.5 million per year is attributed to Class 2 Buildings and $240,000 per year is attributed to Class 3 Buildings. The calculation used to estimate this impact is illustrated in Figure 4.

Figure 4: The administrative cost for builders



In addition to administrative costs, builders may also face delay costs while waiting for the building manual to be approved by the RBS. These delays may occur if the RBS cannot review the documentation immediately or if missing or incomplete documentation is identified, further prolonging the approval process. Delay costs would capture the return on construction work that builders would forgo while waiting for the manual to be finalised and approved.

Given that the documentation required in the building manual is already prepared under the base case, it is expected that the collation process will not lead to material delays in construction. As such, these delay costs have not been quantified as a part of this analysis.

2.7.1.2. Costs to RBSs

RBS will need to sign off on the 'draft' building manual before it can become an 'approved' building manual, at which point the building can receive an occupancy permit. The process of reviewing the draft building manual will cost RBS and will likely be passed on to the builder.

In the base case, RBS does not incur the time costs of reviewing and approving building manuals. All time spent on this new requirement will, therefore, be an additional time cost that RBS do not currently incur.

This analysis uses an estimated time cost of one day (7.5 hours) for an RBS to review a Class 2 or 3 building manual and half a day (3.75 hours) to review a Class 1b building manual. The estimate comes from stakeholder consultation undertaken by DTP with the VBA during the RIS process and the Building Legislation Amendment Act's stipulation that the RBS is not responsible for verifying the integrity of documentation but rather ensuring that all required documentation is present.[45]

The cost of the time taken to review is valued at $260 per hour, reflecting the average hourly wage for RBSs, including overheads.[46] Combining the time cost to RBSs with the value of that time yields a unit cost of $1,000 for one Class 1b building manual review and $1,900 for a Class 2 or 3 building manual review.

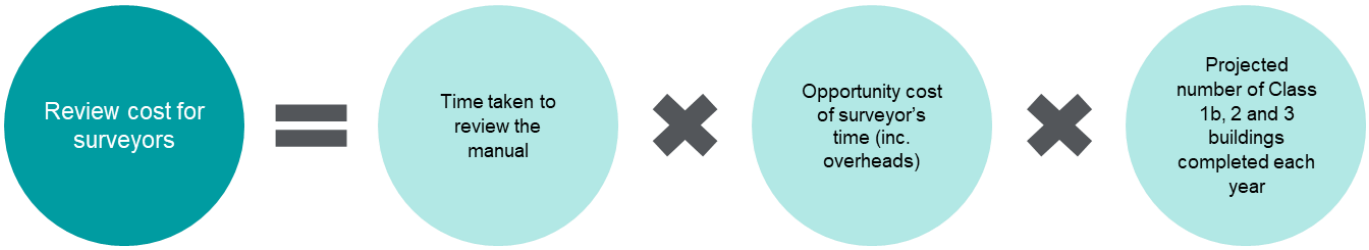
Buildings only need to have their draft manual reviewed and approved once, so this analysis estimates that RBSs will have to review 620 total building manuals per year over the analysis period. This is a sum of 30 Class 1b, 550 Class 2 and 40 Class 3 buildings every year.

For Class 1b buildings, this cost is estimated to total $33,000 a year. Class 2 buildings represent the largest proportion of review costs, at $1.1 million per year, while reviews of Class 3 buildings will cost an estimated $82,000 annually. The total annual cost of reviewing business manuals is, therefore, $1.2 million, which

[45] Building Act, section 128A.
[46] Building Regulations (2017) Regulatory Impact Statement, the estimate is inflated to 2024 Australian dollars based on the 2017 RIS.

amounts to $9.6 million in present value terms over the 10-year analysis period. The calculation to yield this result is shown in Figure 5.

Figure 5: Administrative cost for RBSs



2.7.1.3. Costs to building owners/owners corporations

The primary cost of the preferred option for building owners and owner's corporations has been identified as the cost of updating the building manual annually. The costs of updating the building manual reflect the time invested in amending the manual to include new work on the building and resubmitting the manual to the relevant authorities on an annual basis.

As the base case assumes that building manuals are not currently prepared, owners and owners corporations do not currently incur any costs of updating a building manual. Any time that is spent updating building manuals is thus captured in the incremental cost. It should be noted that the breadth of building work that will need to be incorporated into the manuals remains subject to refinement through the public consultation process.

Based on DTP consultation with a targeted sample of stakeholders, this analysis assumes the time burden of updating a building manual is one hour per week for Class 2 and 3 buildings (52 hours per year per building), and half of this (26 hours per year) for a Class 1b building.[47] Among respondents, there was significant variation in the expected time burden to complete these tasks, indicating that the burden of updating the manual will differ for each building.

The stakeholders incurring this time cost are owners and owner's corporations. Their time is valued differently, depending on whether they are professional building/strata managers (whose time is valued according to their wage plus overheads) or non-professionals (whose time is valued as leisure).

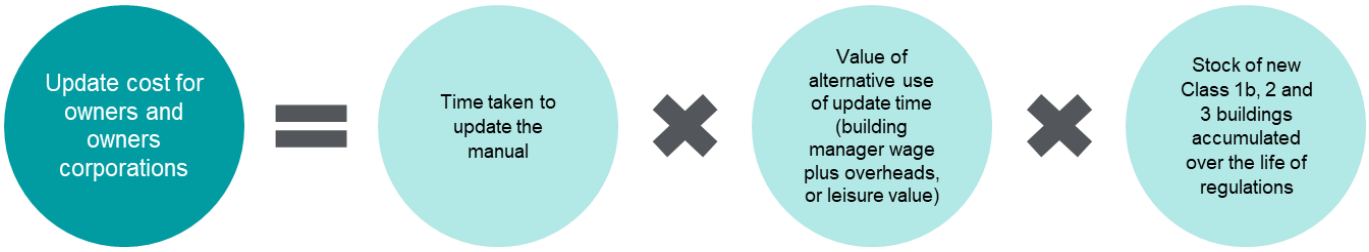
Based on an NSW survey, 55% of strata buildings have a professional manager.[48] This analysis assumes that 55% of updates are undertaken by people whose time is valued at a $72 hourly rate for building managers (inclusive of overheads). The remaining 45% would otherwise spend the time at leisure. As such, their time is valued at the after-tax average Victorian wage, which is approximately $39 per hour. Accordingly, a time cost of approximately $3,700 per year is incurred for a professional to update one Class 2 or 3 building manual (approximately $1,900 for a Class 1b), and $2,000 if the update is done by a non-professional (approximately $1,000 for a Class 1b). To capture the prevalence and opportunity cost of time spent updating by both professionals and non-professionals, a weighted average time cost of approximately $3,000 is used for Class 2 and 3 buildings. This is halved to $1,500 for a Class 1b building, reflecting the lower estimated time commitment.

The annual number of updates to building manuals scales with the stock of Class 1b, 2 and 3 buildings that come online after the regulation is introduced. This means that, over the 10-year analysis period, approximately 34,000 updates to building manuals will be required.

[47] Consultee responses reflected a version of the manual where the threshold for updates is work that requires a compliance certificate.
[48] Building Commission NSW (2023), Research on serious building defects in NSW strata communities.

This calculation yields an average annual cost to building owners and owners corporations of $9.9 million to update Class 1b, 2 and 3 building manuals. Class 2 buildings account for approximately $9.0 million of this annual cost, with updates to Class 1b and Class 3 buildings costing an average of $277,000 and $684,000 per year, respectively. Over the 10-year analysis period, the total cost amounts to $75.7 million in present value terms. The cost calculation is laid out in Figure 6.

Figure 6: Administrative cost for owners/owners corporations



2.7.1.4. Costs to government

The Victorian Government will incur costs associated with developing guidance and educational materials to accompany the proposed Regulations, as well as any costs associated with storing the manuals in systems.

The costs of developing guidance and educational materials are expected to be a new, one-off cost to Government that will precede implementation of the proposed Regulations and simplify compliance for those preparing, reviewing and updating the manuals. This cost is estimated to total $65,000 in present value terms, reflecting a first-year resource commitment of two months full-time for a Victorian Public Service (VPS) 5 employee (at $74 per hour), and one month for a VPS 6 employee (at $91 per hour), plus an additional 75% of these labour costs to cover overheads.[49]

The costs of storing manuals reflect the cost of filing, processing and digitally cataloguing burden associated with cataloguing building manuals as they are drafted, approved and updated.

In the base case, the VBA has the digital infrastructure capacity to maintain business-as-usual operations without additional expenditure. However, storage of building manuals and updates may require IT improvements. The VBA has estimated the cost of these upgrades, and the VBA staff time needed to consolidate building information may be up to $400,000. If this cost is incurred in the first year of the analysis period (where it is discounted at 4%), the present value of costs equals $385,000.

The VBA has indicated that existing full-time employees (FTEs) will be able to process building manuals once the system is prepared. As such, no additional employee resources are costed.

In sum, the government's costs associated with introducing the building manual (including storage costs and the development of guidance material) total $450,000.

Request for inputs from stakeholders on the expected costs of the proposed Regulations

DTP welcomes all stakeholders with views on the likely costs of the proposed Regulations to share these with DTP through a submission as part of the consultation process for this RIS, including consideration of the following:

- the nature of any costs associated with:
  - the preparation of the draft building manuals by builders

[49] The 75% overheads assumption reflects guidance from the Victorian Regulatory Change Measurement (RCM) Manual.

  - the approval of the draft building manual by RBSs
  - the update of the approved building manual by owners/owners corporations (including the breadth of building work that will need to be incorporated into the manuals)
- the scale and frequency of any additional costs associated with the introduction of the building manual – this should be over and above the current situation where building manuals are not formally required
- any factors that drive variation in the estimate of costs provided, including the difference between costs across building classes
- the degree to which any of the new requirements and their corresponding activities are already undertaken by industry – for example, the extent to which documentation is already prepared, stored, and maintained by building practitioners and subsequent building owners.

2.7.2. Breakeven analysis

Breakeven analysis has been used to estimate the conditions where the benefits of the preferred option exceed the costs. Based on the estimates in this analysis, the benefits of the preferred option for introducing a building manual must exceed $108.1 million over the 10-year analysis period to break even.

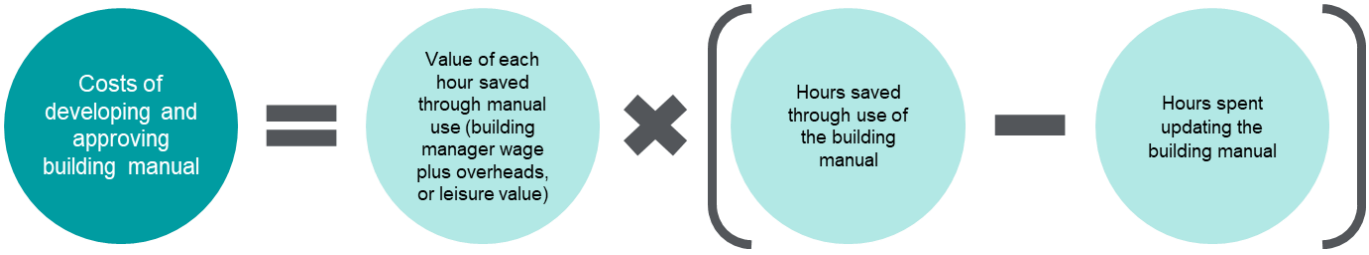
The benefit metric for analysis is the value of time saved by the owner and owners corporations using the manual. This has been selected because it is the most quantifiable benefit aligned with the intent of the intervention. While the MCA also considers the reduced risk of defects as a key benefit for consideration, it is difficult to quantitatively attribute avoided defects to the introduction of a building manual, as it would require a measure of behavioural change by builders and sub-contractors due to the increased accountability the manual creates. Time saved, however, has a more 'direct' link to the intervention and thus supports stronger attribution.

For the project to break even, each building manual needs to meet two conditions:

1. the value of the hours saved using the manual needs to cover the initial costs of developing and approving the draft manual
2. beyond the hours that need to be saved to recover the development cost, owners and owners corporations need to save more time using the manual than they spend updating it.

To cover the initial costs to builders and RBSs of developing and approving the draft manual, the owner or owner's corporation of one Class 1b, 2 or 3 building would need to save about $3,200, $6,500 and $7,600 worth of time, respectively through the use of the final building manual over the life of the building. The breakeven condition for development costs can be seen in Figure 7.

Figure 7: Breakeven point calculation for developing and approving the draft building manual



As with updates, 55% of building manual uses are attributed to professional building managers (whose time is valued at $72/hour), and 45% are attributed to non-professionals (whose time is valued at $39/hour). The weighted average value of an hour saved is thus $57. If each hour of their time is worth $57, the owner or

owner's corporation in a Class 1b, 2 or 3 building needs to save 57, 114, or 133 hours over the life of the building to break even on its cost of development and approval.

2.7.2.1. Limitations of the breakeven analysis

This breakeven analysis only considers time savings, which account for just 40% of the total benefits identified in the MCA. Other critical benefits, like reduced building defects, improved safety, and the potential for fewer future repairs, are not quantified but would significantly increase the overall value of the reform. Time savings for other stakeholders besides building owners, such as the VBA, local councils and emergency services, are also not considered in the analysis. These unmeasured benefits could make the actual returns from the building manuals much larger than the breakeven analysis suggests.

In summary, while Option Three has higher initial costs, it is preferred because of its broad scope of buildings The breakeven analysis, though limited to time savings, indicates that the benefits could outweigh the costs if owners save enough time, and factoring in unmeasured benefits like defect prevention would likely strengthen the case for this option.

Table 2.13: Breakeven conditions for building manual development and approval costs

Class	Cost of developing and approving the manual[50]	Net hours that must be saved to cover costs
Class 1b	$3,200	57
Class 2	$6,500	114
Class 3	$7,600	133

2.7.2.2. Conclusions of the breakeven analysis

The breakeven points for the draft building manual capture 'net' hours saved. If a building manual saves enough hours for the owner or owner's corporation to cover the cost of developing and approving the manual, the breakeven point for the draft building manual is met. This alone does not mean that benefits meet the total cost of the building manual. For the building manual to break even on all costs (i.e. initial development costs plus ongoing update costs), hours saved beyond the development cost breakeven point need to be equal to or more than the number of hours the owner or owner's corporation spends updating the manual.

This means that the breakeven number of hours saved rises with the number of hours spent updating the manual. For example, if a Class 2 building owner spent 40 hours updating their building manual before using it, they would need to save 154 total hours by using the manual to break even on the cost of developing it.

Stakeholders who were consulted had mixed opinions on whether breaking even (when only considering time savings) is feasible. Strata manager responses offered estimates of time savings attributable to the building manual that range from marginal (i.e. less than a day saved per year), to significant (weeks saved per year, accumulating to months saved over the life of a building). Strata managers have also expressed mixed views on whether a manual would save them more time than it would cost them (though none explicitly suggested a ratio of hours saved through use to hours invested in updates).

The responses suggest that strata managers are likely to have diverse experiences with building manuals, and therefore, further public consultation will be important for understanding of the scale of feasible benefits.

[50] Inputs to costs of developing and approving the manual are reported as rounded figures in line with the approach outlined in Figure 3. Costs reflect the sum of costs to builders and costs to RBSs associated with developing and approving a single building manual. See section 2.7.1.1 and 2.7.1.2.

Request for inputs from stakeholders on the expected benefits of the proposed Regulations

Given the uncertainty regarding the nature and likelihood of achieving benefits, DTP welcomes all stakeholders with views on the likely impacts of the proposed Regulations to share these with DTP through submission as part of the consultation process for this RIS, including consideration of the following:

- the types of benefits to be gained from improved access to information through the introduction of a building manual – this may include, for example, improved efficiency (time savings) and/or a reduction in non-compliance with building standards and associated harms
- the likely scale and frequency of these benefits relative to the current situation where building manuals are not formally required
- any factors that might drive variation in the estimate of benefits provided
- the feasibility or likelihood that benefits would be achieved and conditions that achievement of benefits might depend on.

3. Additional mandatory inspections

Victoria's building regulatory scheme requires third-party inspections at certain stages of construction. These mandatory inspections play an important oversight role in ensuring that building work progresses in accordance with the Building Act, Building Regulations, NCC, and the approved building permit for each project. The RBS for each building permit is responsible for the inspections.

The key stages of work at which inspections are required are known as 'mandatory notification stages.' When construction work reaches each notification stage, the builder must notify the RBS, which must then cause an inspection to occur. The RBS may conduct the inspection themselves or delegate it to another authorised person.[51] Five mandatory notification stages are currently prescribed under regulation 167 of the Building Regulations for new buildings and for alterations to existing buildings:

1. Before placing a footing
2. Before pouring the in situ reinforced concrete member
3. The framework is completed
4. During the conducting of fire and smoke-resisting building work in certain classes of buildings[52]
5. Final, upon completion of all building work.

If non-compliant work is identified, the RBS must issue a direction to fix it, requiring the builder to rectify the non-compliant work. In this way, inspections allow non-compliant work to be identified at key stages of construction and rectified early to mitigate the risks of further damage or adverse impacts on the health and well-being of workers or occupants. There are also significant financial benefits as the costs of rectifying deficient work are lower if they are identified earlier—before they are covered by other work or cause damage to other building elements.

Victoria's building regulatory system seeks to ensure that all new building work is safe and compliant. This requires a building control regime designed to prevent non-compliant building work from being carried out, identify when non-compliant work occurs, and subsequently require any non-compliant work to be brought into compliance. Mandatory notification stages and inspections are key oversight measures to achieve this objective.

The Expert Panel has recommended reforms that introduce additional mandatory inspections for Class 2 buildings, with a specific focus on waterproofing and framework before lining.[53] This recommendation builds on the previous recommendation of the BCR, which called for on-site inspections that are proportionate to risk.[54] The BCR's recommendation noted that inspections should be aligned to scrutinise work that will later be covered and difficult to view.

3.1. Legislative framework

The legislative framework for Victoria's building inspection regime is set out in Part 4 of the Building Act. These provisions set out the requirements for builders nominated on a building permit to notify the RBS at each mandatory notification stage and to stop work if directed by the RBS, with penalties of up to 120 penalty units for a natural person where this does not occur.[55] The RBS must notify the VBA if a builder fails to notify them of a mandatory notification stage.

Following notification that a mandatory notification stage has been completed, the RBS must cause an inspection to occur. Inspections must be carried out in person by a registered building surveyor or registered

[51] Building Act, section 35B specifies who is authorised to conduct inspections, including registered surveyors, registered inspectors and other prescribed persons.
[52] This notification stage is only required for Class 2, 3, 4, 9a, and 9c buildings.
[53] Expert Panel on Building Reform (2023), Stage One Final Report to Government, recommendation 14B.
[54] Shergold, and Weir (2018), Building Confidence: Building Ministers' Forum Expert Assessment, recommendation 18.
[55] $23,711 based on the 2024-25 penalty unit value of $197.59.

building inspector. In some cases, the Building Regulations permit additional classes of person to undertake inspections.[56] The RBS must keep records of inspections and make them available to authorities or the building owner on request. The information that must be recorded is specified in the Building Regulations.

Part 4 of the Building Act also sets out the powers and requirements for an RBS to issue directions to fix building work and certificates of final inspection. If an RBS identifies building work that fails to comply with the Building Act, Building Regulations or building permit, a direction to fix must be issued. Following the final mandatory notification stage of building work, the RBS must issue a certificate of the final inspection or an occupancy permit if all the directions have been complied with.[57]

Each mandatory notification stage is prescribed in the Building Regulations. The five existing mandatory notification stages for the construction of new buildings or the alteration of existing buildings are listed at the beginning of this chapter. Different mandatory notification stages apply to other construction work categories, such as demolishing an existing building or constructing a swimming pool. The RBS is responsible for determining which mandatory notification stages apply and specifying these stages on building permits. The RBS may omit mandatory notification stages if they are irrelevant to a building permit.[58] The RBS may also exercise their power to cause an inspection at any time to incorporate additional inspections beyond the mandatory notification stages as a condition of the building permit.

3.2. Problem

3.2.1. Accounting for the complexity of different building classes

Except for the notification stage related to fire and smoke resisting building work, the current mandatory notification stages do not differentiate according to the class of building under construction. Although the RBS has the discretion to omit a notification stage or require additional notifications and inspections as a condition of a building permit, the prescribed requirements for inspections are essentially a one-size-fits-all approach. This approach does not account for the complexity and risks of different projects.

As previously noted in this RIS, Class 2 buildings are complex buildings that often feature intricate building elements such as lift services, fire escapes, essential safety measures, garbage disposal systems and complex plumbing systems necessary to cater for large volumes. This is reflected in the building complexity criteria developed by the ABCB and defined in the NCC.[59] Under the NCC definition, one of the five criteria for building complexity is whether all or part of a building is a Class 2 building with three or more floors.

Rectifying non-compliant building work in an apartment or Class 2 building post-completion and occupation is also more complex because it involves multiple owners and an owners corporation. Collective decision-making and agreements are required between parties that have different financial positions, interests, motivations, and levels of knowledge. Owners corporations may be able to facilitate agreements but are not always run by qualified or experienced professionals and may have competing interests with owners.

Unlike Class 1 detached homes or townhouses, apartments share common walls, floors, and ceilings, meaning an issue in one dwelling is likely to impact multiple other dwellings. These compounding effects of non-compliance are also a feature of Class 3 and Class 4 buildings. From a safety perspective, Class 2 and 3 buildings are considered to present a higher risk due to the number of occupants they can accommodate.

The ABCB's model guidance for mandatory inspections, developed in response to the BCR, recommends determining the inspection requirements for each building based on its complexity and risk. Despite this, Class

[56] A fire safety engineer, for example, is permitted to undertake inspections of building work related to fire safety issues.
[57] The powers and requirements for occupancy permits are set out in Part 5 of the Building Act.
[58] For example, a Class 1 house constructed on stumps rather than a concrete slab may not require an inspection during the reinforcement of the in situ concrete notification stage, as there would be no concrete to inspect. In this case, the RBS may omit that notification stage from the building permit.
[59] National Construction Code 2022 Volume 1, refer to 'Building complexity criteria' as defined in Schedule 1.

2, 3 and 4 projects currently require little additional scrutiny in terms of mandatory notification stages compared to a single detached dwelling.[60]

3.2.2. Prevalence and cost of defects in complex buildings

The minimal additional inspection requirements for more complex construction is concerning because both the prevalence and costs of non-compliant and defective building work is higher in these buildings.

Data from the VBA's Proactive Inspection Programme (PIP) indicates that for the first quarter of 2023, 'compliance risks' were found in 78% of apartments and similar buildings, compared to 51% of Class 1 buildings.[61] Defect data from the Victorian Managed Insurance Agency indicates that issues in multi-dwelling buildings are more complex, take longer, and cost more to resolve.[62]

In Victoria, Class 2 apartments account for over two-thirds of residential defect costs, despite making up less than a quarter of the dwellings constructed. The cost of these defects is $453 million annually across the state. At a national scale, the average rectification cost is $9,349 per defect in Class 2 buildings. For comparison, the rectification cost is $2,842 per defect in Class 1 townhouses and $3,440 per defect in Class 1 detached houses.[63]

3.2.3. Non-compliance in waterproofing and framework

The Expert Panel identified concerns about waterproofing in apartment buildings, as well as the structural integrity of the frame after services and penetrations have been installed. Consistent with these concerns, the ABCB model guidance recommends waterproofing inspections in all buildings and 'pre-plaster' inspections in all Class 2 buildings.

Water damage resulting from poor waterproofing is of particular concern due to its high prevalence and the significant health, safety and financial risks it poses. Water damage may result in threats to the health and safety of occupants from indoor mould and, in extreme cases, moisture damage to structural elements of the building. This damage may be caused by a range of factors including poor design, workmanship, use of incompatible products or damage to waterproofing membranes caused by other trades completing subsequent work.

Concerns relating to the frame include whether penetrations are appropriately fire-proofed and whether subsequent works have impacted the structural integrity of the frame. Non-compliance in relation to these elements could increase the risk of harm to building occupants through fire or structural collapse. Additional concerns relate to whether sarking, condensation barriers and insulation (both thermal and acoustic) are installed appropriately. Inadequate thermal insulation results in increased running costs through heating and cooling and, together with inadequate acoustic insulation, may also diminish the amenity and value of apartments.

While waterproofing and framing before lining were explicitly identified by the expert panel, additional concerns have recently been raised about the risks associated with balconies and whether these could be addressed through inspections during construction. In 2023, Cladding Safety Victoria (CSV) released a report on issues and risks identified with balconies through the Cladding Rectification Program.[64] CSV reported that one-quarter of buildings funded through the program have been identified as having balcony defects and that 19% of defective balconies had insufficient waterproofing. Where these defects compromise the structural integrity of balconies, they can pose serious risks to the safety of residents and building occupants. Non-compliant balcony waterproofing may also be related to the incidence of black mould caused by water ingress.

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[60] The inspection of fire and smoke-resistance elements is a single exception, as this inspection is required only for Class 2, 3, 4, 9a, and 9c buildings.
[61] The VBA describes compliance risks as "potentially non-compliant building and plumbing work".
[62] Expert Panel on Building Reform (2023), Stage One Final Report to Government.
[63] The Centre for International Economics (2021), The Building Confidence Report, A Case for Intervention.
[64] Cladding Safety Victoria (2023), Research analysis on issues and risks associated with balcony defects.

3.2.4. Timing of inspections and difficulties in inspecting concealed work

There is currently only one notification stage (for fire and smoke-resisting building work) between the completion of the framework and the final inspection at the completion of all work. A substantial amount of construction work relating to waterproofing and the frame (including installation of plumbing and electrical services, insulation, and vapour barriers) occurs during this period but is not subject to a mandatory notification stage inspection. This work is then covered, meaning it is no longer possible to visually inspect it and any non-compliance is unlikely to be identified. Issues such as non-compliant waterproofing may then take several years to become apparent, by which time damage (e.g., mould or water ingress) may have spread to impact a larger area of the building. Identifying non-compliance early is key to minimising the rectification costs, and the best opportunity to identify non-compliance is when work is uncovered.

3.2.5. Incentives for RBSs

The RBS has the power to require and undertake additional inspections beyond the prescribed mandatory notification stages; however, it is understood that it is rare for the RBS to utilise this power in practice. Data provided by the VBA indicates that 92% of inspections of Class 2 buildings are related to the prescribed notification stages, while only 8% of inspections are additional to the minimum requirements.[65]

Building surveyors operate in a competitive market, creating an incentive to undertake only the minimum necessary inspections to offer a competitive price. There is also a potential conflict of interest as building surveyors may become reliant on builders and developers for future work. Although the RBS is appointed by the building owner, in practice, builders often play an active and influential role in the selection of a building surveyor. In apartment developments, the owner of the building and client of the surveyor is the developer rather than the end owners or occupants of the apartments. Developers face commercial incentives to minimise costs during construction so may prefer to only pay for the minimum level of inspections required, whereas the end owner of occupant may have preferred a greater level of inspection during construction.

3.2.6. Incentives for builders

Builders are also subject to commercial incentives that may contribute to rates of non-compliance. In a competitive marketplace, many consumers will seek the lowest quote for building work, placing pressure on builders (and developers) to minimise their costs. Builders may seek to minimise costs in ways that increase the risk of non-compliance, such as:

- Engaging less qualified subcontractors to undertake building work
- Failing to adequately supervise building work, including the work of subcontractors
- Rushing work to meet deadlines or maximise the number of contracts that can be completed
- Substituting materials or designs for cheaper but potentially lower quality alternatives
- In extreme cases, deliberate non-compliance to cut costs.

3.2.7. Public confidence in apartment buildings

Available data (as outlined above) indicates that Class 2 apartment buildings have a higher prevalence of non-compliant building work, and that non-compliant work is more expensive to rectify in this building class. The design and construction of Class 2 buildings is more complex relative to typical Class 1 dwellings while the nature of these buildings (where dwellings share common walls, floors and ceilings) means non-compliant work in one dwelling is likely to impact multiple other dwellings. This comes as the proportion of dwellings being built in Class 2 buildings has grown substantially over time and further growth in apartments is anticipated into the future.

[65] Building permit and BAMS data (2014-2023). A common example of an inspection additional to the minimum required is a “pre-final” inspection to identify any work that needs to be completed or addressed before the final mandatory notification stage inspection.

In accumulation, these factors undermine public confidence in the apartment market at a time when higher-density development is increasingly important for delivering affordable, sustainable and well-located homes. A New South Wales Building Commission survey in 2022 provides insight into the influence of apartment defects and inspections on consumer preference.[66] The survey found that consumer confidence in apartments is low, which is discouraging residents from purchasing an apartment. A large majority (86%) of those surveyed in NSW believe many apartment buildings have defects, and just over half (52%) would avoid purchasing an apartment as a result. The same survey identified building inspections as key measure to build consumer trust in apartment buildings.

3.3. Objectives

Mandatory notifications and inspections ensure robust oversight of building work at key construction stages. Inspections detect observable non-compliance issues; ensure construction progresses in accordance with the building permit; ensure work is compliant with the Building Act and Building Regulations; and ensure the building is suitable for occupation and use once completed.

The proposed additional mandatory inspections aim to strengthen oversight of building work at crucial stages. The objectives of this reform are to:

- Reinforce the responsibility of builders and the construction industry to ensure compliance with building work while also signalling high-risk work that requires additional scrutiny from building surveyors
- Reduce the costs (both financial and non-financial) of non-compliant building work by identifying and rectifying issues early. No reform is expected to eliminate the possibility of non-compliance
- Rebuild public confidence in the quality and standards of construction of residential apartment buildings
- Minimise any additional costs or regulatory burden.

3.4. Options

DTP identified three options to address the problems identified with non-compliance in waterproofing and pre-lining construction in Class 2, 3, and 4 buildings:

- Option One: Encourage additional inspections through a practice note (a non-regulatory option).
- Option Two: Additional mandatory inspections supported by prescriptive regulations.
- Option Three: Additional mandatory inspections supported by a Ministerial Guideline.

Each option is explained in detail in the following sections.

3.4.1. Option One: Practice note

A non-regulatory option for change would be to develop new information or guidance designed to help practitioners better understand the common risks and concerns associated with waterproofing and framework before lining. This would take the form of a practice note, an unenforceable guidance document published by the VBA. Rather than mandating specific additional inspections, it would encourage surveyors to consider undertaking additional inspections on a case-by-case basis to manage the risks associated with waterproofing and framework before lining.

This Option would rely on section 35 of the Building Act, which confers a general power on an RBS to cause an inspection of building work at any time. Accordingly, when assessing building permit applications, the RBS should consider whether any inspections should take place in addition to those associated with the prescribed mandatory notification stages. If the RBS determines that additional inspections are necessary, they can be included as a condition of the building permit.

[66] Construct NSW (May 2022), Benchmarking consumer confidence towards purchasing class 2 residential properties is NSW. Note: data specific to Victoria is not available.

3.4.1.1. Existing VBA practice note

The functions of the VBA established under section 197 of the Building Act include providing information and advice related to the regulation of building work and providing information and training related to the functions carried out under the Building Act. One way in which the VBA carries out this function is by publishing practice notes providing general guidance about building or plumbing practices. The VBA's practice notes are not binding documents and are generally limited to providing guidance on the technical requirements of the Building Act or Building Regulations.

For example, the existing practice note on mandatory notification stages lists the stages contained in the regulations and explains the role of the RBS in causing and recording these inspections.[67] It also notes the RBS's power to include additional inspections when assessing building permit applications but does not provide guidance as to how the RBS should determine whether to exercise this power. The practice note explains the technical requirements for conducting inspections but does not provide guidance regarding the aspects or elements of building work that should be inspected.

Further guidance on how a building surveyor could assess whether the risks associated with the listed building elements are sufficient to require additional inspections is not provided in the current practice note.

3.4.1.2. Proposed practice note

Under Option One, an additional practice note would be issued with a specific focus on waterproofing and framing prior to lining. It would outline the high risk of these aspects of construction in Class 2, 3 and 4 buildings and the benefits of requiring inspections of this work as a condition of the building permit. This practice note would go further than the limited existing guidance by providing details on what risk factors could be considered by building surveyors in determining whether to specify additional inspections. It would also detail relevant aspects of construction or building elements to be inspected.

The VBA would develop the content of this practice note in collaboration with DTP. It would be informed by other existing guidance and policy documents from other jurisdictions, such as the ABCB's model guidance for mandatory inspections, NSW Practice Standard for Registered Certifiers[68] and Queensland's Guideline for inspection of Class 2 to 9 buildings.[69]

While the proposed practice note would not create a statutory requirement for surveyors to undertake additional inspections of waterproofing and framing prior to lining, it would heighten their awareness of the risks associated with these stages of work and encourage additional inspections because of the benefits they may have for mitigating these risks.

3.4.2. Option Two: Additional mandatory inspections supported by prescriptive regulations

This option would prescribe two additional mandatory notification stages for Class 2, 3 and 4 buildings under regulation 167 of the Building Regulations and prescribe minimum requirements for how these inspections are undertaken. The two additional notification stages would be:

- Prior to covering framework (pre-lining inspection), and
- During work related to waterproofing (waterproofing inspection).

Under the Building Act, the builder named in the building permit must notify the RBS when construction work reaches each mandatory notification stage. The builder is also required to ensure that building work ceases on

[67] Victoria Building Authority (2021) Building Practice Note MI-01: Mandatory notification stages and inspection of building work.
[68] NSW Fair Trading, Department of Customer Service (2022), Practice Standard for Registered Certifiers (Volume One). This volume is specific to new residential apartment buildings.
[69] Queensland Department of Energy and Public Works (2023), Guideline for inspection of Class 2 to 9 buildings.

completion of a mandatory notification stage if directed by the RBS. Penalties of up to 120 penalty units for a natural person or up to 600 penalty units for a body corporate apply for breaching these requirements.

Under section 34 of the Building Act, the RBS is required to cause an inspection of building work following each notification stage. The RBS may undertake inspections themselves or cause another appropriately registered building surveyor or building inspector to undertake the inspection. Inspections must be undertaken in person and the RBS cannot rely on certifications or declarations from the builder that work has been completed in accordance with the building permit documentation and relevant manufacturers' specifications.

Inspections must be carried out when the relevant building elements are accessible and can be clearly viewed. If the work is covered, the RBS may cause the building work to be demolished, opened or cut into, if required, to undertake an inspection.[70]

Under Option 2, further amendments to the Building Regulations would detail prescriptive requirements for how inspections must be undertaken at these notification stages. This approach would be modelled on regulation 172, which prescribes the scope of work required to be inspected following the fire and smoke-resisting building elements notification stage (regulation 167(d)). Further details on this model are provided below. By prescribing the scope of work required for the additional mandatory inspections, this option would establish one consistent standard required for all Class 2, 3 and 4 buildings.

3.4.2.1. Overview of the existing fire and smoke resisting elements inspection

The notification stage for fire and smoke-resisting building elements is an existing prescribed mandatory notification stage pursuant to regulation 167(d). This operates in conjunction with regulation 172, which elaborates on detailed, prescriptive requirements for inspections following this notification stage – an approach that is currently unique to this notification stage.

The details specified by regulation 172 include what building elements need to be inspected, how many of them need to be inspected, how many sole-occupancy units require inspection, when they need to be inspected and what classes of buildings require the inspections. The full regulation is as follows:

Regulation 172 - The building surveyor must cause fire and smoke-resisting building elements to be inspected

(1) The RBS must cause to be inspected the building work relating to the following in each storey of a Class 2, 3, or 4 building—

  (a) any building element that is lightweight construction and that is required to resist the spread of fire in at least one sole-occupancy unit;

  (b) one of each stair shaft, lift shaft or service shaft that is lightweight construction and that is required to resist the spread of fire;

  (c) the components of any building element referred to in paragraph (a) or (b);

  (d) the junctions of any building element referred to in paragraph (a) or (b) with other building elements.

(2) The RBS must cause to be inspected at least one of each type of fire protection method for each type of service penetration to any building element that is required to resist the spread of fire or smoke on each storey of Class 2, 3, 4, 9a or 9c building.

(3) For the purposes of this regulation, an inspection must be carried out when the building element is accessible and clearly visible.

[70] Building Act, section 228D.

(4) This regulation does not apply in relation to building work carried out under a permit issued before 2 June 2018.

(5) In this regulation lightweight construction means construction which incorporates or comprises sheet or board material, plaster, render, sprayed application, or other material similarly susceptible to damage by impact, pressure or abrasion.

Under Option Two, a similar approach would be taken to prescribe detailed requirements for the proposed pre-lining and waterproofing inspections. This would include building classes, building elements to be inspected, the number of inspections required and the timing of inspections.

No changes are proposed to regulation 172.

3.4.2.2. Proposed requirements for pre-lining and waterproofing inspections

Under Option Two, the Building Regulations would prescribe the following requirements for inspections caused by the RBS following notification at the pre-lining and waterproofing stages:

	Prior to covering framework (pre-lining inspection)	During work related to waterproofing (waterproofing inspection)
Building classes	• Class 2, 3 and 4 buildings.	• Class 2, 3 and 4 buildings.
Scope of inspection	• At least one sole-occupancy unit on each storey • All framework (including walls, floors, ceilings and balconies).	• At least one sole-occupancy unit on each storey. • Internal wet areas and balconies.
Inspection aspects (the RBS must cause to be inspected the building work relating to at least each of these aspects)	• Any modification to the framework resulting from the installation of electrical wiring or plumbing. • Any penetrations through the framework. • Any doors or windows installed into the framework. • Any breathable membranes or vapour barriers installed into the framework. • Any thermal or acoustic insulation installed into the framework.	• Falls, hobs, drainage points and movement joints of the substrate. • Any flashing or seals of junctions and penetrations of a balcony. • One of each type of waterproofing membrane system.
Timing	• Before the installation of lining, when the aspects are accessible and clearly visible.	• Before the installation of tiling, when the aspects are accessible and clearly visible.

3.4.3. Option Three: Additional mandatory inspections supported by a Ministerial Guideline

Option Three would consist of two components: an amendment to the prescribed notification stages in the Building Regulations, supported by a Ministerial Guideline issued under section 188 of the Building Act.

3.4.3.1. Regulatory amendment

Like Option Two, Option Three would amend regulation 167 of the Building Regulations to insert two additional mandatory notification stages applying to Class 2, Class 3 and Class 4 buildings only:

- Prior to covering framework (pre-lining inspection).
- During work related to waterproofing (waterproofing inspection).

The previous section provides an overview of the requirements that would apply to builders and RBSs in relation to the additional mandatory notification stages. These would be the same under both Option Three and Option Two. However, unlike Option Two, Option Three would not prescribe any further requirements in the Building Regulations. Further guidance would instead be provided by a Ministerial Guideline.

3.4.3.2. Proposed Ministerial Guideline

Under Option Three, a Ministerial Guideline would be issued by the Minister for Planning under section 188 of the Building Act to provide guidance on how the additional mandatory inspections are to be carried out. Under the Building Act, building surveyors must have regard to any Ministerial Guideline when performing their functions. Failure to do so is grounds for disciplinary action against a building surveyor, which may result in outcomes such as reprimands; requirements to undertake training; conditions on, suspension or cancellation of registration; and penalties of up to 150 penalty units for a natural person.[71]

Unlike regulations, a Ministerial Guideline is not prescriptive. As such, the Ministerial Guideline would provide building surveyors with the discretion to tailor inspections on a case-by-case basis according to the individual risks of each project.

Other jurisdictions in Australia also adopt an approach that combines regulatory requirements with guidance. In NSW, critical stage inspections are regulated by the Environmental Planning and Assessment (Development Certification and Fire Safety) Regulation 2021, supported by guidance in the form of a practice standard for certifiers.[72] Certifiers in NSW must conduct work in accordance with the practice standard as a condition of their registration. In Queensland, inspections are not explicitly required for Class 2 to 9 buildings; however, inspection guidelines provide advice to building certifiers on meeting their statutory duties and obligations using a risk-based, matrix approach for inspections.[73] Inspectors and certifiers in Queensland are required by legislation to observe these guidelines. The NSW practice standard and Queensland inspection guidelines have a legal status comparable to a ministerial guideline in Victoria.

A draft of the proposed Ministerial Guideline for this option has been published alongside this RIS. The Guideline states that RBSs must undertake a risk assessment of each project to inform their decisions on the scope and level of inspection required at the new notification stages and provides a framework which may be used to undertake this assessment. The risk assessment guides building surveyors in considering the following:

- What building elements to focus on when undertaking an inspection at the additional notification stages.
- How extensive the inspection should be, for example, the number of units that should be inspected on each floor or across the building.

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[71] Building Act, sections 179(1)(ca) and 178.
[72] NSW Fair Trading, Department of Customer Service (2022), Practice Standard for Registered Certifiers (Volume One
[73] Queensland Department of Energy and Public Works (2023), Guideline for inspection of Class 2 to 9 buildings.

- Whether relevant building work can be inspected concurrently with inspections at other mandatory notification stages.
- Whether the results of an initial inspection raise concerns of systemic issues that warrant further or more extensive inspections.

The proposed Guideline highlights risk factors that should be considered by the RBS, including:

- The complexity of the building, including the building height, location and type of construction used.
- The quality and detail of building design documentation.
- Whether performance solutions are proposed for critical aspects of the design.
- The construction methods and materials used.
- The experience and record of the nominated builder and other practitioners involved.

The presence of a greater number of risk factors would indicate a greater level of scrutiny through inspections is required, whereas a low number of risk factors would correspond to a less intensive inspection regime. In this way, building projects with a higher degree of risk would be subject to a greater level of burden or cost as a result of inspections. This provides an opportunity for builders to proactively work with RBSs to manage and mitigate risk factors in order to reduce the costs of inspection. Proactive risk mitigation decreases the likelihood of non-compliance occurring in the first instance and reduces the need for costly rectification at a later point.

The Guideline would only apply to the two proposed additional notification stages (pre-lining and waterproofing). They would not apply to the other existing notification stages. The section below provides an overview of the guidance provided for each notification stage and inspection.

3.4.3.3. Proposed guidance for pre-lining and waterproofing inspections

The Ministerial Guidance would include the following guidance to building surveyors. This would provide parameters for the additional mandatory inspections whilst also enabling building surveyors to exercise their professional judgement and discretion.

	Prior to covering framework (pre-lining inspection)	During work related to waterproofing (waterproofing inspection)
Building classes	• Class 2, 3 and 4 buildings.	• Class 2, 3 and 4 buildings.
Inspection aspects (inspections should evaluate and consider each of these aspects)	• Structural integrity of the framework. • Whether modification or penetrations, such as from the installation of electrical wiring or plumbing, have compromised the structural integrity. • Whether windows and doors are installed appropriately, with sufficient fastening to withstand wind loads and adequate flashing and sealing.	• Whether the substrate has appropriate falls, hobs, drainage points and movement joints. • Whether the substrate material and waterproofing membrane system are compatible. • Whether the waterproofing product is appropriate for the intended use (eg: internal or external use). • Whether the waterproofing membrane is correctly installed and without visible gaps, punctures or weak points.

	• Whether breathable membranes or vapour membranes are correctly installed. • Whether thermal and acoustic insulation is correctly installed.	• Whether any junctions or penetrations of a balcony have appropriate flashing or sealing.
Scope of inspection	• Number of sole-occupancy units to be inspected is at the discretion of the RBS, based on risk assessment. • All framework (including walls, floors, ceilings and balconies).	• Number of sole-occupancy units to be inspected is at the discretion of the RBS, based on risk assessment. • Internal wet areas and balconies.
Timing	• At the discretion of the RBS, based on risk assessment.	• At the discretion of the RBS, based on risk assessment.

3.5. Option analysis

This section analyses the options for the introduction of additional mandatory inspections, identifies the preferred option and considers the impact of the preferred option.

As outlined in section 1.3.2, the approach to analysing options for additional mandatory inspections first uses an MCA framework to select the preferred option based on an analysis on how each option performs against a set of selected criteria. Following the selection of the preferred option through the MCA, a breakeven analysis is then undertaken to consider the conditions under which the benefits of the preferred option for regulatory reform will likely outweigh the costs.

3.5.1. MCA criteria

The criteria outlined in Table 3.1 have been selected to assess the options for the introduction of additional mandatory inspections.

The direct cost impact on stakeholder groups has been accounted for in the MCA, highlighting who bears the initial burden of the regulatory change. However, it is important to note that where increased costs fall on builders and RBSs, these costs may be passed through, to some extent, to the end consumer. Consequently, the final distribution of costs may differ from those discussed in the MCA.

Table 3.1: MCA criteria for the introduction of additional mandatory inspections

Criterion	Description	Weighting
Cost criteria		**50%**
Costs to builders	The extent to which each option imposes direct compliance and administrative costs to builders associated with: • notification by builder to RBS of mandatory inspection stage • costs of rectifying non-compliant work • impacts on construction work, including delay costs.	16.67%
Costs to RBSs	The extent to which each option imposes direct compliance and administrative costs to RBSs associated with: • completing additional inspections • increases in RBS workload (including understanding additional requirements, additional planning for inspections and completing additional inspection documentation) • potential impacts on insurance premiums.	16.67%
Costs to government	The extent to which each option imposes costs to government in administering, monitoring and enforcing the new regulatory requirements. These costs may include: • cost of training staff and/or increase in the number of staff required to support monitoring and enforcement of new requirements • stakeholder engagement and communication costs during the introduction and transition to new requirements • development of additional guidance material • cost of additional enforcement activities (including increased quantity of inspections to audit and increased number of complaints to review).	16.67%
Benefit criteria		**50%**
Reduced risk of building non-compliance and associated harms	The extent to which each option will reduce risk and associated harm by: • preventing instances of non-compliance or identifying non-compliance sooner in the construction process • increasing accountability on builders and the construction industry to ensure building work is compliant • building public confidence in the quality and standards of construction. • The extent to which each option allows for the scope and level of the additional inspections to be proportionate to the harm or risk to the community is also considered under this criterion.	50%
	Total weighting	**100%**

3.5.2. The base case

The current regulatory framework is described in detail at the beginning of this Chapter. In summary, regulation 167 of the Building Regulations prescribes the following five notification stages for inspections for all new buildings or alterations of existing buildings:

1. Before placing a footing.
2. Before pouring an in situ reinforced concrete member that is specified in the relevant building permit by the RBS.
3. On the completion of the framework.
4. During the carrying out of building work specified in the relevant building permit by the RBS for the purposes of any inspection required by regulation 172 (inspection of fire and smoke resisting building elements)
5. On the completion of all building work.

Under section 35 of the Building Act, the RBS has the discretion to inspect at any time. When assessing the building permit, the RBS should consider whether any additional inspections are required beyond the mandatory notification stages. If deemed necessary, these inspections can be mandated as a condition of the building permit. However, the Expert Panel heard that this power is rarely invoked and VBA data indicates that 92% of inspections are related to the prescribed notification stages.[74]

3.5.3. Option analysis

The following sections explain the scoring of options against each of the MCA criterion, as outlined in Table 3.1. The base case described above is considered a point of comparison for the three options considered in the analysis and is, therefore, given a score of 0 against all criteria in the MCA framework.

Request for input from stakeholders through the RIS process

The assessment of options has been undertaken based on DTP's expectations of the likely level of effort involved in specific tasks that would be required by regulation and based on historical VBA data regarding the volume of buildings that might be affected.

DTP invites stakeholders with additional data or information to inform the DTP's understanding of the impact of providing that data or information during the public consultation process, which is intended to test the rationale put forward in this RIS for the preferred option.

3.5.4. Criterion 1: Costs to builders

The scoring of each option against Criterion 1 is outlined in Table 3.2, with the rationale for the scores documented in detail following the summary of results.

Table 3.2: Summary of scores for Criterion 1

Criterion	Weight	Option One *Practice note*	Option Two *Additional mandatory inspections supported by prescriptive regulations*	Option Three *Additional mandatory inspections supported by a Ministerial Guideline*
Costs to builders	16.67%	-2	-7	-8
Weighted score		**-0.33**	**-1.17**	**-1.33**

[74] Building permit and BAMS data (2014-2023).

3.5.4.1. Option One: Practice note

Under Option One, the VBA would publish a non-regulatory guidance document (i.e. a practice note) encouraging RBSs to include additional inspections on a case-by-case basis to manage the risks associated with waterproofing and framework prior to lining. This option leverages the existing powers held by RBSs under the Building Act to cause an inspection at any time or to add additional inspections as a condition of a building permit. Under Option One, builders would continue to only be required to notify the RBS at the waterproofing or pre-lining stages if these are included by the RBS as a condition of the building permit. Compared to the base case, this process remains unchanged.

The Practice note would signal to builders and RBSs that waterproofing and pre-lining construction work carry significant risks and require extra attention. As a result, RBSs may use their existing powers to cause an inspection related to these construction stages more frequently, leading to potential additional costs to builders associated with rectifying any instances of non-compliance found during these inspections. Builders would also incur increased costs associated with notifying RBSs when a notification stage has been reached, where an RBS has included this as an additional condition on the building permit. The extent of additional costs to builders under Option One will depend on whether RBSs are likely to undertake more inspections in total (higher quantity) or more targeted inspections (focused on prevalent areas of concern) due to the Practice note.

It is important to note that the impact of the practice note on decisions of an RBS to conduct additional inspections is likely to be limited, given that it is not legally binding. As regulators cannot enforce compliance, some RBSs may choose not to follow the guidance if they perceive no immediate consequences. Additionally, like the base case, some RBSs may be deterred from including additional inspections as a permit condition if they perceive commercial or competitive pressures to keep costs low.

Furthermore, it is uncertain how many building surveyors would read and use the practice note, given it would not be a requirement for them to fulfil their statutory duties.

Based on the above considerations, the effect on compliance and associated costs to builders is expected to be marginal. Given this, Option One has been awarded a score of -2 to reflect a scenario that is only marginally worse (more costly) than the base case.

3.5.4.2. Option Two: Additional mandatory inspections supported by prescriptive regulations

Option Two introduces two additional mandatory notification stages to the Building Regulations and prescriptive inspection requirements which specify how inspections caused by the RBS must be performed.

Compared to Option One, costs are higher under Option Two as builders will have a regulatory obligation to notify the RBS upon completing the waterproofing and pre-lining stages of work. This requirement will impose small additional administrative costs on builders in terms of the time and effort spent to notify the RBS and schedule subsequent inspections. It is assumed that a builder would typically notify an RBS electronically and that this would take a builder approximately 6 minutes to complete. This amounts to approximately $18,500 per year on average based on the number of new buildings constructed each year across Classes 2, 3 and 4 (see section 3.7.1.1). Under this option, there may be delays in construction work as builders must cease work until an inspection has occurred if directed by the RBS. Inspections must occur while work is uncovered, which may delay work such as tiling or plastering. These delays could be exacerbated if there is high demand for RBSs time and availability due to the additional inspection requirements. This analysis assumes that there may be a delay of three days associated with finding an available time with the RBS for an inspection to occur. Delay costs contribute most to the total cost to builders associated with Option 2, approximately $9.8 million per year on average (99 per cent of the total costs to builders).[75]

[75] See section 3.7.1.1. for costing method.

Compared to Option One, Option Two is anticipated to result in a much larger increase in the number of inspections carried out as the requirement to notify the RBS at the pre-lining and waterproofing stages will be enforceable. Penalties would apply to builders who do not comply with the notification requirement under section 33(1) of the Building Act. Penalties may also apply if a builder continues work against a direction from the RBS under section 33(2) of the Building Act.

Under the base case, the financial burden of rectifying non-compliance that emerges after a building has been completed and occupied generally falls upon owners. Under Option Two, some of these costs will be transferred to builders as a result of the additional inspections. This is because builders will bear the cost of rectifying any non-compliance detected by the inspections, which may include material and labour costs and construction delays. Although builders may seek to offset these costs by passing them on to consumers, this is anticipated to result in a net increase in costs to the builder.[76]

Option Two mandates specific requirements for how inspections must be undertaken, effectively applying a one-size-fits-all approach for the buildings subject to these inspections. This would provide certainty and consistency for builders but may also result in a disproportionate burden on projects that are comparatively low risk. This is because the specific inspection requirements may result in a narrow focus from the RBS on compliance with those requirements rather than adapting their inspection approach to best suit the individual circumstances of each project. For example, under Option Two the RBS would be required to continue undertaking inspections of at least one sole-occupancy unit on every floor even if no non-compliance is identified on previously inspected floors. This is likely to result in over inspection and unnecessary burden on builders of projects where the inspections are unlikely to identify significant non-compliance.

The narrow focus of inspections under this option may also limit their effectiveness in identifying non-compliance, therefore limiting the costs borne by builders to rectify that non-compliance. This may occur because some RBSs could be commercially incentivised to adhere only to the minimum standards prescribed under this Option to remain competitive. This commercial incentive may outweigh alternative incentives for RBSs to mitigate any exposure to legal liability due to their insurance, given that adherence to the prescriptive requirements may be used as a defence.[77] DTP acknowledges that there is uncertainty in this analysis, however evidence from the base case, where RBSs generally perform only the minimum required inspections, reinforces this view.[78] Based on these considerations, Option Two has been assigned a score of -7 relative to the base case. This reflects a situation that is $9.8 million more costly per year for builders than the base case, largely because of delay costs.[79] While these costs may accrue to builders in the first instance, they are likely to be passed on to consumers in the form of higher prices for building services.

3.5.4.3. Option Three: Additional mandatory inspections supported by a Ministerial Guideline

Both Options Two and Three impose the same additional mandatory notification stages. The cost on builders associated with notifying the RBS to cause an inspection after these stages is therefore the same for each option. The same penalties and infringements will also apply to builders who do not comply under both Options Two and Three, so compliance with mandatory notification requirements is expected to be the same between these options.

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[76] It is important to note that there is expected to be a net benefit for consumers due to the avoided costs of rectifying non-compliance that emerges after completion and occupation of a building, Non-compliance that emerges after completion is both more complex and more expensive to rectify than during construction. These avoided costs are analysed in section 3.7.1.4.

[77] In Victoria, registered building surveyors are required to have professional indemnity insurance. Professional indemnity insurance covers a building surveyor for any legal liability resulting from any claim during the period of insurance. This may include claims that non-compliant building work was not identified by a building surveyor when it should have been visible or evident to them during their inspection of the building works or before issuing the occupancy permit.

[78] Stakeholder input from building surveyors and representative bodies consulted by DTP during the preparation of this RIS suggests that in at least some cases, some surveyors may already be undertaking inspection activity above and beyond the current standards in relation to wet areas and wall frames and would likely continue to do so regardless of where new minimum standards were set.

[79] See section 3.7.1.1 for full explanation of these costs.

Like Option Two, Option Three will result in delays to construction work as builders must wait until the inspection has occurred before proceeding, if directed to do so by the RBS. Consistent with Option Two, this is estimated to result in delay costs of approximately $9.8 million each year.

Whereas the scope of additional mandatory inspections under Option Two will be prescribed in the Regulations, Option Three differs through its use of a Ministerial Guideline. Under this option, the pre-lining and waterproofing notification stages are supported by a Ministerial Guideline which provides guidance to RBSs about how to exercise their functions concerning these new notification stages. The Guideline would provide the RBS with flexibility to use their expertise to tailor each inspection based on the unique circumstances (including building design, layout, use or purpose) and risks of each project. Specifically, the Guideline will introduce a risk framework to assist RBSs in assessing the risk of each building project and adjusting their inspection regime accordingly. This means the burden of additional inspections under Option Three will be more proportionate to the level of risk compared to Option Two, with lower-risk projects facing a lower burden and higher-risk projects facing a higher burden. The risk assessment undertaken by the RBS will include assessing aspects like building design, documentation and the track record (and/or level of experience) of the building practitioners responsible.

In comparison to the prescriptive approach of Option Two, it is anticipated that this risk-based approach will be more effective in identifying instances of non-compliant building work. This is because inspections will be targeted towards high-risk projects where non-compliance is more likely to occur, enabling a greater proportion of that non-compliance to be identified and subsequently rectified. As such, it is expected that builders would incur greater costs to rectify instances of non-compliance identified by the RBS during the additional inspections under Option Three compared to Option Two.

The risk-based approach to additional inspections under Option Three may additionally encourage builders to ensure work is compliant in the first instance with the knowledge that it is more likely to be inspected. This may involve taking additional measures to ensure work is completed properly, which may increase the initial costs associated with building. For example, builders may be incentivised to hire more experienced designers or consultants, be more likely to use proven designs or products and/or focus more on the quality of design documentation. The additional costs of these proactive actions may help builders avoid some of the other additional costs of Option Three. Firstly, they may result in a lower risk assessment by the RBS, requiring fewer or less extensive inspections, lowering costs associated with those inspections. Secondly, by preventing non-compliance from occurring in the first instance, builders will avoid rectification costs, which would likely be more extensive if that non-compliance were to emerge later in the construction process.

Based on these considerations, Option Three has been awarded a score of -8. This reflects a similar level of administrative and delay costs between Options Two and Three while acknowledging that there may be an increase in compliance costs to builders associated with the rectification of identified instances of non-compliance with building standards during construction under Option Three.

3.5.5. Criterion 2: Costs to RBSs

The scoring of each option against Criterion 2 is outlined in Table 3.3, with the rationale for the scores documented in detail following the summary of the results.

Table 3.3: Summary of scores for Criterion 2

Criterion	**Weight**	**Option One** *Practice note*	**Option Two** *Additional mandatory inspections supported by prescriptive regulations*	**Option Three** *Additional mandatory inspections supported by a Ministerial Guideline*
Costs to RBSs	16.67%	-0.5	-1.5	-2
Weighted score		**-0.08**	**-0.25**	**-0.33**

3.5.5.1. Option One: Practice note

Under Option One, the costs to RBSs associated with undertaking additional inspections are expected to be relatively minor. The increase in workload from conducting more inspections is likely to be slightly higher than under the base case, given that additional inspections remain voluntary under this option.

As mentioned in section 3.5.4, some RBSs may choose not to adopt the practice note if they perceive there to be no adverse consequences. Additionally, some RBSs may be deterred from including additional inspections as a permit condition if they perceive commercial or competitive pressures to keep costs low. However, to the extent that the practice note encourages even a small number of RBSs to exercise their existing powers to cause an inspection more frequently, there may be costs in the form of increased workload. Increased pressure on an RBS's time may negatively affect their efficiency and productivity.

Given the additional inspections under this option will not be mandatory, the costs to RBSs are expected to be small. For this reason, Option One has been awarded a score of -0.5. This represents a situation that is marginally worse than the base case, given the limited impact that the option is expected to have on compliance. It also reflects a lower cost compared to the costs borne by builders (and the broader building industry) considering the flow-on impacts of RBSs' actions on builders.

3.5.5.2. Option Two: Additional mandatory inspections supported by prescriptive regulations

Option Two would prescribe two additional mandatory notification stages with specific inspection requirements directly into the Building Regulations. Compared to Option One, the enforceable nature of these requirements will result in higher costs to RBSs as the total number of inspections they are required to undertake during construction of Class 2, 3 and 4 buildings will increase.

Using Victoria in Future dwelling projections and VBA permit data, it is estimated that the additional mandatory inspections required by this option will apply to 610 buildings annually.[80] For each of these buildings, the RBS will need to cause multiple inspections to satisfy the prescriptive inspection requirements under Option Two. It is assumed that the number of inspections per building in each class will reflect the number of fireproofing and completion of framework inspections currently conducted in each of these buildings. Based on these figures, it is estimated that approximately 3,600 additional inspections will be conducted each year under this option.[81] As a result, RBSs are likely to face increased opportunity costs from conducting additional inspections, potentially impacting their efficiency and availability for other projects.

Given the complexity of the buildings for which the additional inspections will be required, only surveyors (or inspectors) with "unlimited" registration will be able to conduct them.[82] There are currently 700 registered building surveyors and inspectors in an unlimited category in Victoria, amounting to approximately five additional inspections for each practitioner annually.[83] This ratio aims to illustrate the scale of total impact across this stakeholder group but the burden would not be distributed equally in practice.

The inclusion of prescriptive inspection requirements in Option Two would have two opposite effects on costs to RBSs. The one-size-fits-all approach will specify minimum inspection requirements in the Building Regulations and will not allow for flexibility based on risk. While it would be possible for an RBS to exceed the minimum level of inspection required under this option, they are more likely to adhere only to the minimum standard required to remain competitive. Even if the risk of the building work is high, professional liability

[80] See section 3.7.1 for further methodological explanation.
[81] See section 3.7.1.2. for the full costing method.
[82] Building surveyors can obtain registration in "limited" or "unlimited" categories. The "limited" registration category restricts surveyors to working only on buildings up to three stories or 2,000m^2. As such, building surveyors with limited registration would be unable to conduct inspections of many Class 2, 3 and 4 buildings. Building surveyors can also delegate inspections to registered building inspectors. These building inspectors are subject to similar limited and unlimited registration categories. There may be additional costs associated with fees paid to third party inspectors and/or other consultants to undertake inspections on behalf of the RBS. It is expected that these fees would ultimately be passed on to the builder.
[83] Figures provided by the Victorian Building Authority, as of 1 January 2024.

concerns might not sufficiently motivate RBSs to conduct more extensive inspections, given that adhering only to the prescribed requirements may be used as a defence.

Conversely, where building work is considered low risk, the RBS would still be required to exercise the minimum inspection requirements to satisfy their statutory duties and avoid potential penalties. This could result in a disproportionate level of effort relative to the assessed risk for these buildings, resulting in over inspection and an unnecessary increase in costs.

The requirement for mandatory notification also adds a small administrative burden on RBSs, as they need to ensure timely communication and coordination to facilitate these additional inspections as well as record keeping under section 35A of the Building Act.

There may be implications for professional indemnity insurance premiums if the heightened responsibility placed on RBSs to sign off on more stages of the construction process negatively impacts insurer's risk assessments. The scale of this is unknown as, conversely, additional inspections could place downward pressure on premiums if they result in safer buildings.

The effectiveness of Option Two lies in the mandatory nature of the requirements imposed on RBSs to undertake additional inspections. For this reason, Option Two has been awarded a score of -1.5. This represents a higher relative score to Option One but a lower score relative to the costs to builders.

While costs may accrue directly to building surveyors in the first instance, it is likely that these will be passed on to builders in the form of higher prices for building surveying services and subsequently onto consumers.

3.5.5.3. Option Three: Additional mandatory inspections supported by a Ministerial Guideline

Under Option Three, the costs to RBSs associated with mandatory notification and subsequent additional inspections are likely to be slightly higher compared to Option Two. Both options feature the same additional mandatory notification stages which require an RBS to cause an inspection. Unlike Option Two, Option Three provides discretion for RBSs to determine the inspections with the support of a Ministerial Guideline.

Failure to have regard to the Ministerial Guideline could result in disciplinary action by the VBA against a surveyor. To determine the inspection regime, the Ministerial Guideline will require the RBS to undertake a risk assessment of each Class 2, 3 or 4 building project at the permit stage. It is intended that this risk framework will support RBSs to determine an appropriate, risk-based inspection schedule for each building permit.

The introduction of the Ministerial Guideline and associated risk framework may add administrative costs to RBSs compared to Option Two. Further, while some RBSs may already undertake similar processes as part of their current practice, others may initially require a small amount of effort to familiarise themselves with the concept and its application according to the Guideline. This is in addition to the administrative costs discussed for Option Two such as scheduling and documenting inspections.

Both Option Two and Three will apply to the same classes of building (Class 2, 3 and 4). The number of additional inspections undertaken is also assumed to be the same under Option Three as under Option Two (3,600 additional inspections annually). This is because the risk-based elements of this option will simultaneously reduce the number of inspections on 'low-risk' projects and increase inspections on 'high-risk' projects. While there will be higher costs associated with each notification stage for building work that is assessed as high-risk, this will be offset by lower costs associated with building work that is considered low risk.

The estimated cost to RBSs associated with the proposed Regulations is approximately $4.1 million per year on average (see 3.7.1.2). This is based on the time and effort to conduct each inspection (assumed total of 4.5 hours per inspection – 1.5 hours to inspect plus 3 hours for travel and documentation) and the number of additional inspections required in each building (varied based on the notification stage and the class of building being inspected).

Overall, DTP expects that RBSs would face higher administrative and compliance costs associated with conducting the additional inspections under Option Three relative to Option Two. This is because, compared to Option Two, there is an additional need for an RBS to consider the Ministerial Guideline and undertake a risk assessment.[84] For this reason, Option Three has been awarded a score of -2.

3.5.6. Criterion 3: Costs to government

The scoring of each option against Criterion 3 is outlined in Table 3.4, with the rationale for the scores documented in detail following the summary of results.

Table 3.4: Summary of scores for Criterion 3

Criterion	Weight	Option One *Practice note*	Option Two *Additional mandatory inspections supported by prescriptive regulations*	Option Three *Additional mandatory inspections supported by a Ministerial Guideline*
Costs to government	16.67%	0.00[85]	-0.25	-0.25
Weighted score		**0.00**	**-0.04**	**-0.04**

3.5.6.1. Option One: Practice note

Compared to the base case, there would be relatively minor costs to government associated with the issue of a practice note around inspections at waterproofing and pre-lining stages. Issued by the VBA, the practice note would be informed by and leverage existing guidance and policy documents from other jurisdictions, such as the ABCB's model guidance for mandatory inspections, NSW Practice Standard for Registered Certifiers and Queensland's Guideline for inspection of Class 2 to 9 buildings.

Given that this option is not enforceable, the key cost to the Government would be the opportunity cost of DTP and the VBA's time and effort to develop the practice note and distribute the guidance to key stakeholders in the building industry. Given the minor scale of these costs, many of which could be considered business-as-usual, Option One receives a low score of 0.00 relative to the base case. This reflects the very small scale of costs under this option relative to other options and costs to other stakeholders.

3.5.6.2. Option Two: Additional mandatory inspections supported by prescriptive regulations

Introducing two mandatory notification stages and associated inspection requirements under Option Two is likely to increase the costs to government associated with administration, monitoring and enforcement. This includes additional costs to government associated with the training of staff and/or increases in the number of staff required to support the monitoring and enforcement of the new requirements. This may include the increased time and effort associated with auditing inspections or responding to an increase in reports to the VBA where a builder fails to notify the RBS of a mandatory notification stage (as required under section 33(3) of the Building Act). Under Option Two, these costs would also incorporate ensuring that inspections are conducted at the required stages and in the way prescribed within the Building Regulations. This may add some additional costs associated with the time and effort required to enforce the additional requirements.

[84] The time and cost burden to undertake the risk assessment has not been separately quantified.
[85] Option One has been awarded a score of 0 given its very small scale relative to the other options and the costs to other stakeholders. However, in practice, there is likely to be some minimal costs associated with Option One relative to the base case.

Based on consultation with the VBA, DTP understands that the scale of additional enforcement monitoring and enforcement activity is unlikely to change as a direct result of the proposed regulatory changes, and therefore any marginal increases in costs to government will be captured under business-as-usual administration and enforcement expenses.

To support the building industry's transition to new requirements, initial costs associated with stakeholder engagement and communication during the introduction and transition to new requirements are also likely. This may also involve the development of additional guidance or educational material to help businesses understand and comply with the new requirements. This analysis estimates that the one-off cost of developing this guidance material is approximately $65,000, based on estimates of the time and effort required to do so and the wage of relevant VPS staff.[86]

For these reasons, the costs to government associated with Option Two are larger than those outlined in Option One. However, the costs to government are not expected to be material when compared to the cost to builders and RBSs (comprising only 0.06 per cent of total costs). For simplicity, Option Two has therefore been awarded a very small score of -0.25 relative to the base case.

Option Two has also been awarded a score of -0.25 relative to the base case, reflecting a very minor cost relative to all other stakeholders.

3.5.6.3. Option Three: Additional mandatory inspections supported by a Ministerial Guideline

Option Three creates additional requirements for the government to administer, monitor and enforce by prescribing additional mandatory notification stages. Under this option, the Government would also develop a ministerial guideline to provide guidance on how the additional inspections are to be undertaken. Like Option Two, there would likely be increased costs associated with ensuring that inspections are conducted at the required stages and that RBSs have given due regard to the Ministerial Guideline.

This enforcement would be the responsibility of the VBA. As with Option Two, DTP understands based on consultation with the VBA that the scale of additional enforcement monitoring and enforcement activity is unlikely to change as a direct result of the proposed regulatory changes. Therefore, any marginal increases in costs to government will be captured under business-as-usual administration and enforcement expenses.

As a result, the only cost to government associated with Option Three is the development of guidance material. The government will incur costs associated with the initial development, drafting, and publishing of the Ministerial Guideline, as well as ongoing costs associated with reviewing and updating them to ensure they remain current, effective and in line with industry best practices. Like Option Two, this analysis estimates that the one-off cost of developing this guidance material is approximately $65,000.

Consistent with Option Two, Option Three has also been awarded a score of -0.25 relative to the base case, reflecting a very minor cost relative to all other stakeholders.

3.5.7. Criterion 4: Reduced risk of building non-compliance and associated harms

The scoring of each option against Criterion 4 is outlined in Table 3.5, with the rationale for the scores documented in detail following the summary of results.

[86] Assumed one VPS 5 employee for two full-time months, and one VPS 6 employee for one full-time month. See section 3.7.1.3 for full explanation.

Table 3.5: Summary of scores for Criterion 4

Criterion	Weight	Option One *Practice note*	Option Two *Additional mandatory inspections supported by prescriptive regulations*	Option Three *Additional mandatory inspections supported by a Ministerial Guideline*
Reduced risk of building non-compliance and associated harms	50%	2	5	7
Weighted score		**1.0**	**2.5**	**3.5**

3.5.7.1. Option One: Practice note

While the non-statutory nature of a practice note means it lacks enforceability, it would still provide valuable guidance that can enhance RBSs understanding and approach to inspections. It would serve as a reference point for RBSs to ensure they are meeting best practice standards, which would increase the likelihood of identifying and addressing potential instances of non-compliance. This would ultimately support the better identification and rectification of non-compliance and reduce the likelihood of associated harm to people and property.

Therefore, relative to the base case where no Victorian-specific guidance concerning pre-lining or waterproofing inspections is in place, Option One scores positively. However, while Option One can improve the RBSs state of knowledge which may encourage more inspections to take place, its voluntary nature may result in significant variations in the adoption of these inspections. Additionally, guidance already exists in other jurisdictions which could already be accessed by RBSs to inform their approach. Therefore, Option One is limited in its likely effectiveness in reducing non-compliance and associated harms relative to other options that include statutory requirements. For this reason, Option One is awarded a score of 2 relative to the base case.

3.5.7.2. Option Two: Additional mandatory inspections supported by prescriptive regulations

Option Two is likely to be more effective at reducing harms associated with non-compliant building work compared to Option One. This is because Option Two introduces mandatory notification requirements for industry to conduct additional inspections, creating additional opportunities to identify and address non-compliance. Under Option Two, builders are obligated to notify the RBS upon completing the waterproofing and pre-lining stages of work. This requirement ensures that RBSs are aware when key milestones are reached in the construction process, allowing them to schedule inspections of building work at these critical junctures.

Option Two aims to provide a clear and specific framework for inspections at the waterproofing and pre-lining stages by prescribing detailed requirements in the Building Regulations. However, because this represents a one-size-fits-all approach, there may be limitations on how effective it is at reducing the risk and prevalence of non-compliance and associated harms.

While prescriptive requirements can improve consistency and standardisation, Option Two leaves less room for the RBS to exercise their judgement based on the unique risks of each project. Each construction project can vary significantly in terms of complexity, materials used, and the experience of practitioners involved. A one-size-fits-all approach can fail to account for these important differences, potentially leading to inadequate inspection of high-risk projects and over-inspection of low-risk ones.

As discussed in section 3.5.4, some RBSs may be influenced by commercial incentives to only ever meet (but not exceed) the minimum standards set by Option Two. This is because the RBS may feel competitive pressure to minimise costs and time spent on inspections where possible to remain attractive to clients. This can result in less thorough inspections where additional scrutiny would be beneficial.

Option Two is awarded a score of 5 relative to the base case. This score reflects that the mandatory notification stages associated with waterproofing and pre-lining are likely to boost overall compliance by building practitioners with building standards. For example, if a builder knows their work will be inspected at specific stages, they may be more likely to adhere to best practices and building standards from the outset. However, the prescriptive inspection requirements under Option Two are likely to limit the effectiveness of the reform in managing the unique and varying risks associated with different building projects. This ultimately makes Option Two less efficient and effective in reducing the risk of building non-compliance and associated harms.

3.5.7.3. Option Three: Additional mandatory inspections supported by a Ministerial Guideline

By implementing a risk-based inspection approach, Option Three promotes a proactive method for the detection and rectification of any instances of non-compliance with building standards. The introduction of requirements for the builder to issue a notification to the RBS at additional stages of construction will enhance communication processes between the builder and RBS and support greater compliance across the industry. For example, if a builder knows their work will be inspected at specific stages, they may be more likely to adhere to best practices and building standards from the outset, leading to higher overall construction quality and reduced harms associated with non-compliance.

The mandatory nature of the notification enables timely inspections which increases the likelihood of RBSs identifying and addressing instances of non-compliance at the earliest opportunity. Early identification of non-compliance can avoid opportunity and delay costs associated with extensive rework, which may have been required if the non-compliance had gone undetected until later stages of construction or post-occupancy and potentially caused further damage.

Option Three promotes a risk-based approach to inspections through the Ministerial Guideline. RBSs will be guided to increase scrutiny of projects where there is the highest risk, assessed based on considerations such as the experience of practitioners, their track record, the quality and detail of design documentation and the use of proven versus unproven products. This targeted scrutiny makes it more likely that non-compliance with building standards will be identified compared to Options One or Two.

A flow-on effect of this risk assessment is that builders will have an incentive to consider and minimise the risk of their work so that fewer inspections are required. They might hire more experienced designers or consultants, be more likely to use proven designs or products and focus more on the quality of design documentation. By taking a less risky approach, builders may improve construction quality.

Additionally, because the proposed Ministerial Guideline would require surveyors to consider the permit application and design documentation in more detail, this may incentivise better quality design documentation. The RBS relies on this documentation to determine when and what to inspect. Consequently, RBSs will have a stronger incentive under Option Three to closely scrutinise documentation at the permit stage and ensure any deficiencies or errors are addressed before the permit is granted and construction commences.

Like Option Two, the effectiveness of Option Three may be undermined by commercial pressures on RBSs to minimise their scope of inspection. As this option provides discretion to the RBS, there may be additional pressure for an RBS to take advantage of the flexibility afforded by the Ministerial Guideline to save on costs. However, the RBS would need to be able to demonstrate that they had regard to the Ministerial Guideline, otherwise they may be subject to disciplinary action or held professionally liable for an inadequate inspection regime. Due to the discretionary or subjective nature of the risk assessment, enforcement of Option Three may be more difficult than the more objective requirements of Option Two.

As a risk-based approach, Option Three is likely to have a much higher impact on compliance with building standards and is therefore more effective than Option One at reducing the risk of non-compliance and associated harms. Option Three therefore scores higher than Option One for this criterion and is awarded a score of +7. DTP notes that, for the full benefit of Option Three to be achieved, a visible and active compliance and enforcement regime will be a critical component of implementation.

3.6. Preferred option

Table 3.6 presents a summary of the MCA scores assigned to the criteria, reflecting the discussion throughout this chapter of the RIS. The scores are weighted as per the framework outlined in Table 3.1, to produce a weighted score for each option.

The results of the MCA determine that Option Three (introducing additional mandatory inspections supported by a Ministerial Guideline) is the preferred option for regulatory reform, as it has the highest weighted score of all options considered. Under this option, the prescribed notification stages in the existing Building Regulations would be amended to insert two additional mandatory notification stages for inspections prior to covering framework (pre-lining inspection), as well as during work related to waterproofing (waterproofing inspection). These notification requirement stages will apply to Class 2, 3 and 4 buildings only. A Ministerial Guideline will provide advice to RBSs regarding how inspections should be undertaken depending on the assessed risk of each project.

Table 3.6: Summary of MCA scores for additional mandatory inspections

Criterion	Weight	Option One *Practice note*	Option Two *Additional mandatory inspections supported by prescriptive regulations*	Option Three *Additional mandatory inspections supported by a Ministerial Guideline*
Cost criterion				
Costs to builders	16.7%	-2	-7	-8
Costs to RBSs	16.7%	-0.5	-1.5	-2
Costs to government	16.7%	0.00[87]	-0.25	-0.25
Benefit criterion				
Reduced risk of building non-compliance and associated harms	50%	2	5	7
Total weighted score		**0.58**	**1.04**	**1.79**

3.7. Impact of the preferred option

Following the selection of the preferred option (Option Three) through the MCA, this section of the RIS estimates the cost impact associated with the preferred option. Following the quantification of the costs, a

[87] Option One has been awarded a score of 0 given its very small scale relative to the other options and the costs to other stakeholders. However, in practice, there is likely to be some costs still associated with Option One relative to the base case.

breakeven analysis is conducted to determine the feasibility of the benefits of the preferred option outweighing the estimated costs.

3.7.1. Costs associated with the preferred option

Implementation of the preferred option is expected to create costs for builders, RBSs and Government. These costs are quantified where possible and allocated to the stakeholder that incurs the time burden of each cost. This captures the value of the resources used to comply with the regulatory change, which could otherwise be spent on other productive work or at leisure. These costs are summarised in Table 3.8 and explained in further detail in the following sections. A full list of assumptions is outlined in **Appendix C**.

Based on the parameters used in this analysis, the total cost associated with the introduction of additional mandatory inspections with a Ministerial Guideline is $113.1 million over a 10-year analysis period.[88] Each cost is estimated on a per-building basis and scaled according to the estimated volume of in-scope new buildings completed under each option over the analysis period (610 each year). The projected annual number of new buildings was calculated as follows:

- **Calculate total annual dwellings:** forecasts of total new annual dwellings in Victoria are calculated based on the 15-year average from the Victoria in Future total dwellings dataset.[89] This forecast assumes constant dwelling growth to 2036, although it does not take into account other factors such as population growth and changes in government policy.
- **Differentiate between house and non-house dwellings:** the total number of dwellings is divided between detached houses and 'non-house' dwellings (such as townhouses and apartments). This split is approximated using data from the past decade on residential property purchases in Victoria, based on ABS building activity data.[90]
- **Estimate the number of non-house buildings**: to estimate the number of buildings in multi-dwelling blocks, the total number of non-house dwellings is divided by an average of 59 units per building.[91]
- **Classify non-house buildings:** the split between new Class 1b, 2 and 3 buildings is estimated using VBA data on new building permits issued between 2014-2024.[92]

This yields the following estimates of annual builds by Class:

Table 3.7: Estimated annual builds by NCC Class

Class	Builds[93]
Class 2	550
Class 3	40
Class 4	20
Total	**610**

[88] While the costs in this RIS have been calculated over a 10-year period, it should be noted that implementation of the preferred option will occur through amendments to the Building Regulations 2018, which will sunset (expire) in 2028. This means the proposed additional mandatory inspections will only be in place for a 3-year period, before the entire Building Regulations are reviewed and remade. At that time, the additional mandatory inspections requirement will be reassessed for its necessity, effectiveness and impact for another subsequent 10-year regulatory period.
[89] Department of Transport and Planning (2023), Victoria in Future.
[90] Australian Bureau of Statistics (2024), Total Value of Dwellings.
[91] Jenner and Tulip (2020), The Apartment Shortage, page 29.
[92] As Class 3 buildings are not defined as 'residential', the estimate for new annual buildings is based on the average yearly quantity of new building permits over the past ten years. This is the same approach used to apportion new other residential buildings between Class 1b, 2 and 4 buildings. Data was supplied by the VBA.
[93] Note that the estimated number of buildings is rounded to the nearest 10.

As in the MCA, the below analysis accounts for the initial burden of regulatory changes on stakeholder groups. However, costs incurred by builders and RBSs may be passed on, to some extent, to the end consumer. Consequently, the final distribution of costs may differ from those outlined below.

Table 3.8: Summary of total costs to stakeholders (PV over 10-year analysis period)

Cost	Estimated value (PV)
Costs to builders	
Cost of submitting notifications	$149,000
Delay costs	$79.2 million
Costs to RBSs	
Cost of conducting inspections	$33.7 million
Costs to government	
Development of educational/guidance materials	$65,000
Total	**$113.1 million**

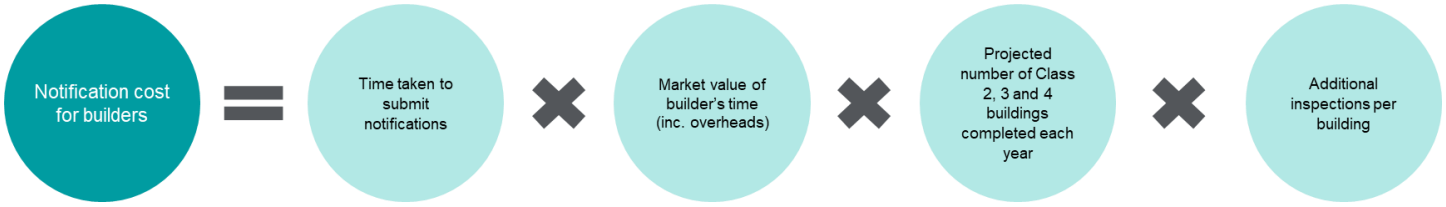
3.7.1.1. Costs to builders

Builders will incur two costs from the introduction of additional mandatory inspections: the cost of submitting notifications for inspections and the delay costs incurred when further work cannot progress because builders are waiting for an inspection. Builders also incur the costs of rectifying non-compliance at construction (see section 3.7.1.4).

Builders incur a minor cost when submitting notifications for inspections to the RBS. This cost is assumed to be additional to the base case and quantified as the value of the time spent submitting a notification for the builder. Submission is assumed to take six minutes, which is valued at an average builder's wage of $151 per hour.[94] This means that submitting an inspection costs a builder $15.

Based on the estimated 610 annual new Class 2, 3 and 4 buildings over the analysis period, and assuming that each building must submit two additional notifications, the total cost to builders is $149,000 over the 10-year analysis period. The calculation is illustrated in Figure 8.

Figure 8: Costs of notification to builders



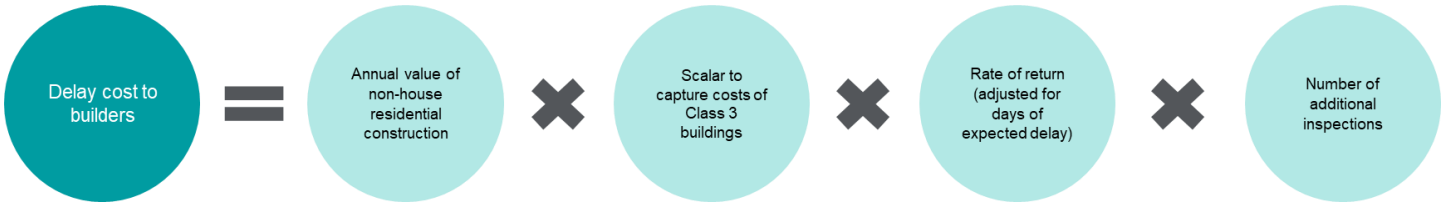
Delay costs reflect costs incurred by builders when they must stop working on inspection-related components of the build while waiting for an RBS to conduct and pass an inspection. This may occur if a backlog of notifications means that an RBS cannot conduct an inspection when scheduled, creating a period where

[94] The value for builders' time comes from the CPD RIS and is inflated to 2024 Australian Dollars, while the estimate of time for submission has been estimated by DTP.

construction must wait for the RBS to sign off. Equipment and workers may be able to be redeployed on other parts of the build, but when the delays mean these resources are not as productive as they would be without the inspection, this creates a cost for builders.

Delay costs are estimated by calculating the return on completed buildings lost due to delays. This is intended to capture a broad range of costs including additional labour costs caused by delays. At a state level, this depends on the annual value of construction work, which is estimated from the total value of 'other residential' work completed over the past year in Victoria.[95] To capture the foregone return, this is multiplied by an annual assumed return on investment of 6.5% (scaled for the length of the delay – assumed to be three days).[96] This gives an annual delay cost of $9.8 million, with total costs amounting to $79.2 million present value terms over the 10-year analysis period. The calculation is illustrated in Figure 9.

Figure 9: Delay costs to builders



On the above basis, the total estimated cost to builders associated with additional mandatory inspection requirements under the preferred option totals approximately $79.4 million (PV) over the 10-year analysis period.

3.7.1.2. Costs to RBSs

RBSs incur costs associated with conducting the additional building inspections. These include the cost of travelling to the inspection site, conducting the inspection, and completing any necessary paperwork involved in recording the inspections.

The estimated time commitment per inspection is 4.5 hours. This captures 1.5 hours for the inspection, with an additional allowance of three hours assumed for travel, documentation and recording of inspection outputs.[97] This time is valued at the $260 per hour average wage of RBSs (including overheads) to capture the next best use of the RBS's time.[98]

To get the cost of inspection per building, the average number of inspections per building by class was derived from VBA permit data, using fire safety inspections as a proxy for waterproofing and framework completion inspections as a proxy for framework prior to lining. The average number of inspections was calculated based on the cohort of buildings for each Class that a) recorded inspections from 2019 onwards (when fire safety inspections became mandatory), and b) recorded at least one relevant inspection. For waterproofing, this yielded estimates of approximately four inspections per Class 2 and 3 buildings and two inspections per Class 4 building. Pre-lining framework inspections are estimated to occur twice for each Class 2, 3 and 4 building.

Multiplying the time cost of an inspection by the number of new buildings per year and the number of additional inspections per building yields an annual cost to RBSs of $4.1 million under the preferred option. Due to their more frequent construction, Class 2 buildings incur the majority of the annual costs ($3.8 million).

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[95] Australian Bureau of Statistics (2024), Total Value of Dwellings. To account for the costs of Class 3 construction, this is multiplied by a factor that captures the ratio of Class 3 annual costs compared with Classes 1b, 2 and 4 (i.e. the classes captured by the ABS value of 'other residential' construction).

[96] Typical profit margins in building can vary significantly based on a number of factors such as the size and structure of the business, the size and type of building project/contract and the economic state of the industry. Given this uncertainty, a 6.5% holding rate based upon guidance from DTF's Regulatory Change Measurement Manual has been applied to the analysis.

[97] The 1.5 hours per inspection estimate is derived from the 2017 Building Regulations RIS.

[98] The value for RBS wages is derived from the 2017 Building Regulations RIS and is inflated to 2024 Australian Dollars.

For Class 3 and 4 buildings, annual costs are $294,000 and $76,000, respectively. These costs total $33.7 million (PV) over the 10-year analysis period. The calculation is illustrated in Figure 10.

Figure 10: Costs of inspection to RBSs

3.7.1.3. Costs to government

The Government will incur costs associated with developing guidance and educational materials to accompany the proposed Regulations.

The costs of developing guidance and educational materials are expected to be a new, one-off cost to Government that will precede the implementation of the proposed Regulations and simplify compliance with inspection requirements.

For additional mandatory inspections, guidance and education costs are assumed to reflect the guidance and education costs of introducing the building manual: $65,000, reflecting a resource commitment of two months full-time for a VPS 5 employee (at $74 per hour), and one month for a VPS 6 employee (at $91 per hour) plus overheads.

3.7.1.4. Costs of rectifying non-compliance identified as a result of additional mandatory inspections

Builders also incur a time cost associated with rectifying any non-compliance that is detected during inspections. This is not quantified in the $113.1 million total cost. There are two main reasons for this:

- incurring this cost at construction rather than completion ultimately results in an overall net benefit (i.e., an avoided cost).[99]
    - Addressing issues during construction is generally more efficient and less disruptive. During the construction stage. Problem areas are more accessible, materials and labour are already on site and changes can be made without disrupting building occupants. Once the building is completed, rectifying non-compliance can be significantly more costly due to factors such as the need for demolition and reconstruction and the increased complexity of working within a finished structure. Non-compliance may also result in further damage the longer it goes undetected, requiring a greater scale of work to repair.
- the exact volume of non-compliance that would need to be rectified during construction from the introduction of additional inspections is uncertain.

It is important to recognise and understand the scale of costs incurred by builders to address this non-compliance and how this compares to the cost of rectifying non-compliance after project completion. Understanding the former is especially important for understanding the impact of reform on builders because it is additional to the costs they pay to rectify non-compliance in the base case.

[99] As noted in section 3.5.4, while builders avoid a time cost by rectifying during construction, they generally incur an additional financial cost, because owners generally pay for rectification works after completion.

The economic and financial cost of rectifying non-compliance during construction

While this analysis focuses on the economic costs (e.g. time, or resource, costs) of complying with the proposed interventions, it is important to recognise that builders are likely to incur a net financial cost to rectify non-compliance detected during inspections.

After completion, while builders still bear the *time* cost of addressing non-compliance, *owners* generally bear the financial burden. Owners bear the burden of rectification after completion because Domestic Building Insurance is uncommon for multi-dwelling buildings, and developers and builders use special-purpose vehicles (which close at project completion) to manage project risk. This can make it hard to compel builders and sub-contractors to rectify non-compliance once construction is complete. The arrangement is summarised below.

Cost burden of rectifying non-compliance at different project stages

	Time (economic) cost	Financial cost
Rectification during construction	Builders	Builders
Rectification after completion	Builders	Owners

Given the uncertainty around the volume and nature of non-compliance that will need rectification because of the additional inspections, this analysis expresses the costs of rectifying during construction and after completion as an average unit benefit.

The cost of rectifying post-completion for waterproofing and framework non-compliance can be quantified through a representative weighted average cost of rectification for these instances of non-compliance. These costs are based on the costs of rectifying defects as reported by the CIE report. While noting that there is not a consistently agreed definition of a "building defect", the CIE report refers to "defects relevant to the NCC and BCR", which is considered to be consistent with non-compliance as referred to in this RIS.[100]

As calculated by the CIE report, these costs are $22,000 to rectify an instance of waterproofing non-compliance (with a non-compliance prevalence rate of 0.39 per Class 2 dwelling), and $10,000 to rectify an instance of framework non-compliance (with a non-compliance rate of 0.25 per Class 2 dwelling).[101] This yields an average cost of rectifying non-compliance at completion that totals $17,400 per instance. This reflects the total cost avoided if an inspection causes non-compliance to be rectified during construction rather than completion.

This analysis assumes that builders incur an estimated 70% of this $17,400 (approximately $12,100) to address the non-compliance during construction.[102] This allows owners to avoid paying the $17,400 and creates a net benefit to society of an estimated $5,300 in avoided rectification costs, per instance of non-compliance identified during the construction stage.

[100] The Centre for International Economics (2021), The Building Confidence Report, A Case for Intervention. See pages 19-20.
[101] Waterproofing and framework non-compliance is mapped to 'waterproofing/weatherproofing' and 'structural' non-compliance respectively.
[102] Estimate drawn from a survey on the share of waterproofing non-compliance costs incurred if non-compliance is addressed during construction rather than after completion, conducted for: Government of Western Australia (2019), Reforms to the building approval process for single residential buildings in Western Australia: Consultation Regulatory Impact Statement.

Request for inputs from stakeholders on the expected costs of the proposed Regulations

DTP welcomes all stakeholders with views on the likely costs of the proposed Regulations to share these with DTP through a submission as part of the consultation process for this RIS, including consideration of the following:

- the nature of any costs associated with:
  - the administrative burden of notification by builders of a mandatory inspection stage (for waterproofing and pre-lining work) and any associated delays.
  - the inspection by RBSs (including the time and effort for the inspection itself, as well as any other costs associated with an inspection such as record keeping).
- the scale and frequency of any additional costs associated with the introduction of additional mandatory inspection stages – this should be over and above the current situation where inspections for waterproofing and pre-lining stages are not formally required.
- any factors that drive variation in the estimate of costs provided, including the difference between a VBA guidance note, Ministerial Guidelines and prescriptive regulatory requirements.
- the degree to which any of the new requirements and their corresponding activities are already undertaken by industry – for example, the extent to which inspections are already undertaken for waterproofing and pre-lining stages of work.
- Whether the content of the proposed Ministerial Guidelines would be more appropriately included in a practice note.

3.7.2. Breakeven analysis

Breakeven analysis has been used to provide some indication of the likelihood that the benefits of the preferred option exceed the costs, and thus that the regulatory change will likely result in a net benefit. For the preferred option for additional mandatory inspections, the estimated benefits must exceed the $113.1 million in total costs over the 10-year analysis period to breakeven.

Avoided non-compliance has been selected as the metric for breakeven analysis because it aligns with the objectives of the additional mandatory inspections. The importance of this benefit is reflected in its 50% weighting in the MCA. To estimate the unit value of the benefit, a ‘weighted average avoided cost’ was calculated to capture the benefits of avoiding an instance of waterproofing and framework non-compliance in one number. The calculation laid out in section 3.7.1.4, yields a weighted average avoided cost of $5,300 for each instance of non-compliance that is addressed during construction rather than after completion (see the below table for a summary of these costs).

Table 3.9: Net benefit analysis for addressing non-compliance during construction.[103]

Cost parameter	Value per defect
Cost of rectifying non-compliance after completion	$17,400
Cost of rectifying non-compliance during construction	$12,100
The net benefit of rectifying non-compliance during construction	$5,300

[103] Deloitte analysis, based on the CIE report for ABCB and the Government of Western Australia (2019), Reforms to the building approval process for single residential buildings in Western Australia: Consultation Regulatory Impact Statement.

When considering the benefits of avoided construction costs of rectification after completion, the number of detected instances of non-compliance (each accruing $5,300 in net benefits) must equal the cost of introducing the regulation.[104] Annually, these costs equal $14.0 million. If each instance of avoided non-compliance creates $5,300 in benefits, approximately 2,600 defects need to be addressed each year. This amounts to approximately 12% of total instances of waterproofing or framework non-compliance expected to emerge in Victoria in any given year during the analysis period. The 23,000 estimated annual instances of non-compliance are approximated by the estimated prevalence of waterproofing and framework non-compliance in a Class 2 dwelling – 0.39 and 0.25, respectively.[105] This is then scaled by the approximately 610 new Class 2, 3 and 4 buildings each year, with Class 2 and 3 buildings multiplied by 59 to capture the estimated number of dwellings in each building in this class.[106]

The share of non-compliance that needs to be avoided for the intervention to break even is sensitive to the cost of rectifying non-compliance during the construction phase. The 70% estimate of the cost of rectifying at time of inspection (taken from a Western Australia RIS, henceforth referred to as the WA RIS) is taken as the central estimate in that RIS but is likely to be conservative. This is because it does not specify when in the construction process the inspection takes place (i.e., before versus after waterproofing is complete), and the estimate applies to single dwellings, where rectification at completion may be relatively less burdensome than in buildings that house multiple dwellings.

Alternative estimates of the cost of rectification during construction relative to after completion are lower and have been used for sensitivity testing in Table 3.10. The WA RIS estimated that the cost of fixing the average instance of non-compliance with building standards identified through inspections is between 10% and 46% of the cost at completion, with a central estimate of 40%. ACIL Allen's report for the ABCB on more stringent waterproofing provisions in NSW buildings (hereafter, 'ACIL Allen report')[107] estimated the cost of compliance with the new provisions at approximately $900 per apartment.[108] Their literature review placed the cost per waterproofing instance of non-compliance per apartment at between $5,500 and $31,000. The estimates imply that if compliance with the requirements means an instance of non-compliance is avoided, it would lead to net benefits in an approximate range of $4,600 - $30,100.[109] Based on these figures, the most conservative estimate of rectification costs during construction is approximately 15% of the cost of rectification after completion.

[104] The sum of costs excludes those that relate to rectifying non-compliance in construction. These are treated as net benefits.
[105] These are drawn from the CIE's estimates of the prevalence of these two types of defects in Class 2 dwellings in their Building Confidence Report for ABCB. The prevalence is then scaled up based on the ratio between total estimated defects per Class 2 dwelling in Victoria and total estimated defects per Class 2 dwelling in Australia.
[106] Based on the average number of units in new apartment blocks in Melbourne, as reported Jenner and Tulip (2020), The Apartment Shortage. *Economic Research Department, Reserve Bank of Australia-Research Discussion Paper*, *4*.
[107] ACIL Allen for Australian Building Codes Board (2024). Waterproofing provisions in NCC 2025: Impact analysis of proposed changes.
[108] The provisions include stronger 'deemed-to-satisfy' provisions for waterproofing work, and stronger performance requirements for rainwater management in residential buildings.
[109]The Centre for International Economics (2021), The Building Confidence Report, A Case for Intervention and VBA (2021), Examining indoor mould and moisture damager in Victorian residential buildings.

Table 3.10: Sensitivity of breakeven points to estimates of the cost of rectification during construction

Source	Share of completion cost	Net benefit	Instances of non-compliance addressed to break even (yearly)	Share of relevant non-compliance
WA RIS – cost of addressing waterproofing non-compliance in construction	70%	$5,300	2,600	12%
WA RIS – cost of addressing non-compliance at inspection	40%	$10,400	1,300	6%
ACIL Allen report – cost of adherence with performance requirements	15%	$14,700	1,000	4%

Source: Deloitte analysis of WA RIS and ACIL Allen report

The average construction costs of rectification analysed above do not capture other costs of addressing non-compliance after completion. The benefits not valued in the avoided cost of an instance of non-compliance include the:

- non-compliance that is prevented because the knowledge of additional inspection leads to greater care taken during the construction process by builders and sub-contractors.
- costs of professional advice needed to identify and understand the nature of non-compliance post-completion and occupation.
- legal costs associated with resolving disputes that arise from non-compliance.
- time costs for building owners and owners corporations of organising rectification.
- time and inconvenience costs for occupants when rectification affects their use of the building and/or amenities (for example, if they are forced to access temporary accommodation).
- foregone rental income for owners during the rectification process.

Data limitations make it difficult to quantify and attribute these benefits with certainty. As such, they are not included in the breakeven analysis but must be considered when assessing the overall feasibility of reaching the breakeven point. The relative scale of these costs, particularly legal costs or foregone rental income, may be significant and in some cases could exceed the rectification costs.[110]

Estimates of the share of instances of non-compliance that can be avoided through inspections suggest that the breakeven point is achievable, even without quantification of the other benefits listed above. Survey data collated in the CIE report found that respondents thought implementation of recommendations (which included additional mandatory inspections for Class 1 and 2 buildings) could decrease non-compliance by an average of 58%.[111] If 52% of Class 2 defects occur during construction (as their data analysis indicates), compliance with their recommendations at construction could reduce total non-compliance by 30%. For their central estimate, ACIL Allen's report assumed that 80% of all waterproofing non-compliance could be avoided with stronger waterproofing provisions in the NCC. Using the same assumption that 52% of defects occur in construction (a figure cited in ACIL Allen's report), this would imply that 42% of waterproofing non-compliance would be avoidable through compliance with performance requirements at the construction stage. Given waterproofing non-compliance represents such a large portion of total non-compliance, this alone represents a 26% decrease in total non-compliance, a figure that does not include the additional reduction in framework

[110] See for example, the CIE Report, page 27.
[111] Survey respondents are practitioners in the building industry, including builders, surveyors, architects and plumbers.

non-compliance that would be achieved through additional mandatory inspections. Each of these figures are multiples greater than the 12% of defects that need to be avoided for this reform to break even under the central (and most conservative) scenario. This implies that it is very feasible for the intervention to break even.

Request for inputs from stakeholders on the expected benefits of the proposed Regulations

Given the uncertainty regarding the nature and likelihood of achieving benefits, DTP welcomes all stakeholders with views on the likely impacts of the proposed Regulations to share these with DTP through submission as part of the consultation process for this RIS, including consideration of the following:

- the types of benefits to be gained from additional mandatory inspections, including a reduction in instances of non-compliance with building standards and any associated harms and/or avoidance of costs associated with rectifying non-compliance sooner
- the likely scale and frequency of these benefits be relative to the current situation where inspections are not mandatory for waterproofing and pre-lining stages of work
- any factors that might drive variation in the estimate of benefits provided.

4. Small business and competition impacts

This chapter assesses the impact of the preferred options on small businesses and market competition.

4.1. Small business impacts

Small businesses may experience disproportionate effects from regulation changes for various reasons. These may include that the requirement applies mostly to small businesses or that small businesses have limited resources to interpret or meet substantive compliance requirements compared to larger businesses. Small businesses may also lack the economies of scale that allow fixed regulatory costs to be spread across a large customer base.

DTP understands that most building practitioners (including building surveyors and inspectors) are either sole traders or employ fewer than 20 employees. However, the proposed regulations are more likely to impact larger businesses in the construction sector. This is due to the limited application of the proposed reforms to Classes 1b (building manual only), 2, 3 and 4 (additional mandatory inspections only). Due to the scale and complexity of these building classes, they are more commonly constructed by large builders and developers (albeit with involvement from many small business sub-contractors).

4.1.1. Building manual

Small businesses will incur limited administrative costs and compliance responsibilities with the introduction of the draft manual, but larger businesses are likely to experience a greater burden from the Building Manual regulations. Small businesses typically work on smaller-scale projects, such as single dwellings (Class 1 buildings), which are not subject to the same Building Manual requirements as larger projects (Class 2 and 3 buildings). Regarding the impact on small businesses related to OCs, the requirements are likely to be more demanding for small OCs compared to larger ones. However, they can benefit from more structured management and, over time, improved building maintenance and compliance practices, which have been a key focus of this RIS.

4.1.2. Additional mandatory inspections

Similarly, small businesses will be impacted differently to large businesses by the requirements for additional mandatory inspections as they will likely have less time and administrative resources to prepare a notification to the RBS (in the case of a builder) or cause an inspection (in the case of an RBS). However, benefits and costs are likely to scale with the magnitude of business activity, so small businesses are unlikely to be disproportionately affected.

In the case of builders, the impacts of this reform are more likely to affect large businesses than small businesses. This is because they will only apply to Class 2, 3 and 4 buildings which, due to their scale and complexity, are more commonly built by large builders than small companies. Larger businesses will likely have more resources and capacity to absorb the impact of the changes. However, small builders wishing to expand their work to include Class 2 buildings, particularly at the smaller scale, may face increased barriers to that expansion due to the reforms.

4.2. Competition impacts

The Victorian Guide to Regulation also requires a RIS to assess the impact of regulations on market competition. Victoria is a party to the Competition Principles Agreement, which requires that any new primary or subordinate legislation should not restrict competition unless it can be demonstrated that the government's objectives can only be achieved by restricting competition and that the restriction's benefits outweigh the costs.

Legislation can affect competition by preventing or limiting the ability of businesses and individuals to enter and compete within markets. In undertaking this assessment, the following questions have been considered:

- Are the preferred options likely to affect the market structure of the affected sector(s) – i.e. will it reduce the number of participants in the market or increase the size of incumbent firms?
- Will it be more difficult for new firms or individuals to enter the industry after the imposition of the preferred options?
- Will the costs/benefits associated with the preferred options affect some firms or individuals substantially more than others (e.g. small firms, part-time participants in occupations etc.)?
- Will the preferred options restrict the ability of businesses to choose the price, quality, range or location of their products?
- Will the preferred options lead to higher ongoing costs for new entrants that existing firms do not have to meet?
- Is the ability or incentive to innovate or develop new products or services likely to be affected by the preferred options?

4.2.1. Building manual

Under the preferred option, a building manual is only required for specific classes of buildings. This may result in a slight increase in construction costs, potentially creating market barriers for some businesses engaged in complex building work.

However, since the costs related to the building manual are likely to be passed on to consumers, the overall impact on competition is expected to be minimal. Additionally, the marginal expense of preparing the building manual is small compared to the total cost of the development, meaning it is unlikely to pose significant barriers to competition. In addition, the prescribed open file format for the building manual, along with the provided VBA guidance and forms, will allow the industry to compile the manual with ease. As a result, it is improbable that the manual will create any technical or knowledge-related barriers to competition.

4.2.2. Additional mandatory inspections

Although the preferred option for additional mandatory inspections may impact on competition, these impacts are expected to be minor.

As mentioned in section 4.1.2, the requirements for additional mandatory inspections may present a barrier for businesses seeking to enter into the market for construction of Class 2, 3 and 4 buildings, including apartment buildings. The Ministerial Guideline will instruct RBSs to tailor the inspection regime for the additional inspections based on the history and experience of a builder. As such, new construction firms would likely be subject to a more thorough inspection regime, and bear higher costs, compared to existing firms. However, given the scale of these additional costs are minor relative to total construction costs, it is unlikely that the additional inspections will materially impact on firms' ability to enter the industry.

On the other hand, there is a possibility that the reform may have a positive impact on competition by raising compliance standards. By increasing the quality of work required of the industry and improving outcomes for consumers, increased monitoring of compliance under the preferred option may create a fairer playing field for businesses to compete without the risk of being undercut by less compliant businesses that may take shortcuts to offer consumers cheaper construction or surveying services. In addition, while the requirements will increase costs for businesses, these costs will likely be passed on to consumers.

5. Implementation

The release of this RIS provides key stakeholders and members of the public the opportunity to consider the options for each reform and provide feedback. Feedback is also sought on the draft regulations and draft Ministerial Guidelines for additional mandatory inspections published alongside this RIS. After the public comment period, DTP will consider this feedback in finalising the amendments to the Regulations, the Ministerial Guidelines and preparations for implementation

DTP expects that the proposed Regulations will be finalised in June 2025. Finalising the regulations is only one step in implementing additional mandatory inspections. DTP and the VBA, together with key stakeholders, will undertake further work to ensure the industry is informed of and prepared for the new requirements. The regulations are not proposed to commence until at least six months after they are made, to provide sufficient time to prepare for the change. Feedback is sought through this public consultation process on the adequacy of the lead time.

DTP is sensitive to the building industry's need for certainty, particularly amid ongoing supply and skills shortages. Allowing time to inform practitioners and the broader industry of new requirements will allow them to prepare and adjust ahead of implementation, minimising disruption.

5.1. Building manual

The proposed Regulations specify that building manuals will be required for Class 1b. 2 and 3 buildings for which an application for a building permit is made on or after 30 June 2025. The requirements will not apply to existing buildings or buildings where the application for a building permit was made before this date. While the proposed Regulations nominate 30 June 2025 as the commencement date, this is subject to consultation on this RIS. The commencement date of the final Regulations will be no sooner than six months after they are made.

Effective communication is proposed to raise awareness about the significance of building manuals. The communication strategy will convey the manual's purpose, emphasising its benefits for building owners, occupants, and property managers. These key stakeholders should understand their specific responsibilities related to the manual. The communication strategy includes the following steps:

- DTP and the VBA will inform building owners about the manual's content, accessibility, and obligations. In addition, they will also inform property managers about the manual's requirements to support effective building maintenance.
- The VBA will disseminate information about the building manual through various channels, such as through website publications.
- Building surveyors will inform building owners during the building permit application process.
- The VBA will provide guidance and support to stakeholders involved in the construction manual process. Building owners, owners corporations, and building practitioners will receive assistance in determining manual requirements.

5.1.1. Enforcement of the building manual

The Building Act specifies various requirements for building manuals. This ensures that the manual is appropriately stored, maintained, and updated.

The Relevant Building Surveyor (RBS) has direct responsibility for ensuring that a Building Manual is properly prepared as required by regulations. The RBS must ensure all necessary documents for the Building Manual are in place before issuing building permits and occupancy permits. If the Building Manual is incomplete or does not meet regulatory requirements, the RBS can withhold occupancy permits until compliance is achieved, making the RBS a key enforcer in ensuring compliance.

The VBA is responsible for the direct enforcement of the Building Manual under the Building Act in Victoria. The VBA ensures compliance with the Act and associated regulations by supervising and monitoring registered building practitioners to maintain building standards and safety. Local councils also play a role in enforcement alongside the VBA. They have the authority to request copies of the building manual from owners and ensure compliance with the Building Act and Building Regulations. Councils can conduct inspections, issue notices, and take enforcement actions if the building manual isn't properly maintained or updated.[112]

Other offences require an applicant to provide an approved building manual to the owner's corporation at its first meeting (new section 44A). Additionally, building owners and owners corporations must update their building manual according to prescribed regulations (new sections 44B and 44C).

Furthermore, the *Building Legislation Amendment Act 2023* introduced a new offence under section 15A of the *Sale of Land Act 1962*, stating that it is an offence if the vendor of land (including a building) does not provide an up-to-date copy of an approved building manual to the purchaser. However, this offence does not apply to the sale of land affected by an owner's corporation, as the owner's corporation is responsible for maintaining the building manual.

5.2. Additional mandatory inspections

Once the proposed Regulations commence, RBSs will determine whether the new mandatory notification stages apply to a building when assessing an application for a building permit. Therefore, these requirements will only apply to applications for a building permit made after the commencement date of the proposed Regulations and will not apply to pre-existing building permits or applications.

A key consideration for the implementation of additional mandatory inspections will be the readiness and availability of building surveyors to undertake this work. Under the preferred option for this reform, the Ministerial Guidelines will support building surveyors by providing guidance about what is required to acquit their duties in relation to the new inspections. Further non-binding guidance will be provided through updates to the VBA's practice notes relating to mandatory notification stages and inspections. DTP and the VBA will work to educate and inform practitioners ahead of the regulations taking effect, including through the VBA's Practitioner Education Series events.

A proposed draft of the Ministerial Guideline has been published alongside this RIS for public consultation. DTP will consider and incorporate feedback received on the draft Guideline following the consultation period. The Guideline will be finalised and published prior to the commencement of the proposed Regulations.

The assistance of stakeholders representing building surveyors and inspectors will be sought to inform all surveyors and inspectors of the new requirements. This will include providing guidance materials and providing opportunities for individual practitioners, businesses and stakeholders to seek clarification on any questions about the changes.

With the exception of the proposed Ministerial Guideline, enforcement of the proposed Regulations is not expected to differ substantially from that of the existing mandatory notification stages under regulation 167. This is because the requirements for builders to notify the RBS at prescribed notification stages and for RBSs to notify the VBA if the builder fails to meet this requirement are well established in practice. The addition of two new notification stages under the proposed Regulations will not require any substantive changes to the implementation or enforcement of the existing notification stages.

[112] Four offences related to building manuals are established by sections 44A, 44B, 44C and 44D of the Building Act. One of these offences involves a person knowingly or recklessly providing false or misleading information in a draft building manual (as outlined in section 44D). According to the proposed Regulations, any information or documents submitted to the VBA under regulation 205F must be provided within 28 days after being included in or attached to the approved building manual. A penalty of 10 units applies for this requirement.

On the other hand, the use of a Ministerial Guideline is a new and previously unused approach in the context of notification stages and inspections in Victoria. The VBA will be responsible for enforcing the Guideline and will be able to investigate building surveyors to determine whether there are grounds for disciplinary action if they fail to have regard to the guidelines when carrying out their functions.

The VBA's approach to enforcing the new Guideline will be in line with its Compliance and Enforcement Framework.[113] The VBA's primary focus is on reducing risk to the Victorian community by prioritising their efforts towards activities that pose a greater threat to health and safety or economic loss to consumers or the public. In deciding which enforcement option is the most appropriate, the VBA focuses on how harm can be reduced most efficiently and effectively. The VBA will consider matters such as prior conduct, the seriousness of the conduct and the impact on the consumer when determining the appropriate enforcement action.

Request for inputs from stakeholders on the implementation of the proposed Regulations

Stakeholders are invited to provide comments on whether the proposed commencement timeframes are appropriate, including consideration of the following:

- Whether sufficient time is provided for industry to prepare for the implementation of the proposed Regulations.
- Whether additional guidance is required to support implementation.

[113] VBA, Compliance and Enforcement Policy Framework

6. Evaluation

The proposed Regulations amend the 2018 Building Regulations, which are scheduled to expire in 2028. As a result, these regulations will only be in effect for three years before the Building Regulations undergo a sunset review. Normally, the two reforms would undergo a mid-term review, but due to the timing of the sunset review for the 2018 Building Regulations, DTP intends to undertake mid-term evaluations as part of the sunset review.

Although a Ministerial Guideline issued under section 188(1) of the Building Act is not a legislative instrument, the proposed Ministerial Guideline for additional mandatory inspections will be included in the sunset review.[114] DTP's approach to evaluating the Ministerial Guideline is outlined in section 6.2 below.

6.1. Evaluation strategy for the building manual

Key stakeholders will have opportunities to comment on the manual's content, format and accessibility through consultation and feedback mechanisms. This strategy will ensure effective communication and engagement, leading to a better understanding and adoption of the building manual. Furthermore, DTP will:

- Invite stakeholders to comment on the effectiveness of the regulations and identify aspects that require further investigation.
- Work with the VBA and industry to determine the extent to which the objectives of the proposed regulations are being achieved.
- Identify opportunities to improve implementation of the building manual such as greater centralisation for storage of documentation over time.

6.1.1. Proposed evaluation methods

The evaluation approach for the building manual encompasses the key objectives, focusing on addressing information gaps, enhancing safety and maintenance support, and identifying building defects. The broader evaluation objectives include:

1. Has the introduction of the building manual successfully bridged the information gap, enabling building owners and owners corporations to meet their needs?
2. Has the building manual impacted the viability, cost, and timely delivery of new apartments?
3. Are there any remaining information gaps that should be included in the manual?
4. Is the format and accessibility of the manual adequate?
5. Has the building manual helped owners or owners corporations enhance their safety and maintenance practices?
6. Has it facilitated prompt defect resolution?

Topic/metric	Evaluation methods

Asymmetric Information	• Conduct interviews with building practitioners, owners and owners corporations to explore the experiences and challenges related to information sharing.
	  ○ Understand any barriers to sharing information and whether the manual contents meet the needs of owner's and owners corporations.
	  ○ Canvass ways the manual could be improved with regard to format and storage
	• Feedback from the VBA on whether the building manual has improved the ability of the regulator and owners to identify and respond to non-compliance and defects.

[114] *Subordinate Legislation (Legislative Instruments) Regulations 2021*, Schedule 1.

	• Use any available data insights from the VBA to evaluate compliance with the building manual contents and updates • Develop a questionnaire for the building owners and owner's corporations about the content of the building and whether additional information is required.
Safety and Maintenance	• Survey via a questionnaire to owners and owners corporations to gather information on how the manual assists with safety and maintenance compliance ○ Obtain feedback to identify how the manual could be improved regarding maintenance and safety documentation, partly related to fire safety matters. • Gather information via interviews about whether the access to the manual is sufficient for groups, such as the Fire Rescue Victora and Emergency Services Victoria
Addressing Defects	• Feedback from the VBA on whether the building manual has improved the ability for the regulator and owners to identify and respond to non-compliance and defects. • Undertake interviews with industry groups, such as Strata Associations, about whether the building manual has saved time and money when addressing defects. ○ Canvass ways the manual could be improved to assist with this issue.

6.2. Evaluation strategy for additional mandatory inspections

DTP will monitor the implementation of the proposed additional mandatory notifications from the commencement of the proposed Regulations in 2025 until the sunsetting of the Building Regulations in 2028. This will include evidence identification and collection to build a more robust evidence base and inform any future regulatory changes. Regular and improved evidence collection will assist in early identification of emerging issues that require further consideration. Ahead of the sunsetting of the current Building Regulations in 2028, DTP will undertake a comprehensive review of the entire Building Regulations. This review will encompass the implementation of additional mandatory inspections and the associated Ministerial Guideline.

The sunset review will provide an opportunity to consider the broader mandatory notification stage and inspection framework in a holistic way, informed by the evaluation of additional mandatory notifications. Although the Ministerial Guideline is separate from the Building Regulations, it will be reviewed concurrently to ensure all aspects of the reform are considered concurrently. This is a priority as the use of a Ministerial Guideline in relation to mandatory inspections is a new approach for Victoria.

DTP will continue to engage with stakeholders to identify any issues relating to the practical implementation of new Regulations or to identify aspects that require further investigation. The evaluation strategy is sensitive to the dynamic environment within which the reforms are proposed to be implemented. As indicated in earlier chapters, these reforms are being undertaken at a time of substantial change in the building industry.

In line with the objectives for the introduction of additional mandatory inspections (as outlined in section 3.3), in evaluating the implementation of this reform, DTP will consider the following:

- Whether builders, who are ultimately responsible for the compliance of construction work, and the construction industry have responded to the reforms by minimising risks and strengthening a focus on compliance in pre-lining and waterproofing construction.
- The prevalence of non-compliance identified through pre-lining and waterproofing inspection.
- Public views on the quality of buildings subject to additional mandatory inspections, particularly apartments.
- Impacts on the viability, cost, and timely delivery of apartments and other developments within the reform's scope.

Additionally, in evaluating the Ministerial Guideline DTP will consider:

- Practitioner understanding of the risk assessment approach.
- How RBSs apply risk assessments to determine an inspection regime.
- How RBSs document this decision making process.
- The VBA's experience in monitoring and enforcing the Guideline.
- Potential benefits to extending the scope of the Guideline to other mandatory notification stages.

The extent to which non-compliance requiring rectification emerges post-completion and occupation of a building would also be an indicator of the extent to which additional mandatory inspections have met the objectives of reform. However, given the timeframes involved, it may be many years before the impacts of this reform could plausibly be evaluated against this indicator. In addition, any impact would be difficult to attribute directly to any one reform amidst the Government's broader building reform program.

6.2.1. Proposed evaluation methods

DTP will inform its evaluation through a combination of quantitative and qualitative methods relevant to the stated objectives of the reform. This may include:

Topic/metric	Evaluation methods
Responsibility of builders	• Assess the availability and popularity of continuing professional development for building practitioners focussed on pre-lining and waterproofing construction. • Evaluating a sample of building documentation to assess the quality of the documentation in relation to the design and specification of the framework and waterproofing. • Data on the number of builders who fail to notify the RBS at the proposed additional notification stages (measured by notifications made to the VBA for breaches of section 33(1) of the Act). • Consultation with industry stakeholders.
Prevalence of non-compliance in pre-lining and waterproofing construction	• Data reported by RBSs to the VBA on notification stage inspections and their outcomes. • Review a sample of RBS inspection reports. • Collect data on the number of directions to fix issued by RBSs following pre-lining and waterproofing inspections. • Reviewing VBA data gathered through the Proactive Inspection Program. • Consultation with and qualitative data collection from building surveyors and inspectors.
Public confidence in apartment buildings	• Public surveys and polling. • Focus groups of apartment owners and prospective buyers. • Analysis of relevant correspondence received and complaints lodged with the VBA. • Review of relevant economic data and indicators, such as apartment construction data.
Regulatory burden	• Consultation or survey of developers and builders. • Collecting data on the length of construction delays between notification and inspection and associated holding costs. • Analysis and comparison of apartment construction costs. • Ongoing engagement with Better Regulation Victoria.

Appendix A: Consultation questions

DTP welcomes feedback on all aspects of this RIS and invites stakeholders to address the following questions as part of their submissions. Alternatively, a survey with different short form questions can be completed on the Engage Victoria page for this consultation: engage.vic.gov.au/new-building-regulations-for-apartments.

Building manual

Section 2.5.3 - Request for input from stakeholders through the RIS process

The assessment of options has been undertaken based on DTP's expectations of the likely level of effort involved in specific tasks that would be required by regulation and based on VBA data regarding the volume of buildings that might be affected. DTP invites all stakeholders with additional data or information to inform the DTP's understanding of the impact of providing that data or information during the public consultation process, which is intended to test the rationale in this RIS for the preferred option.

Section 2.6.6 - Request for inputs from stakeholders on the expected costs of the proposed Regulations

DTP welcomes all stakeholders with views on the likely costs of the proposed Regulations to share these with DTP through a submission as part of the consultation process for this RIS, including consideration of the following:

- the nature of any costs associated with:
  - the preparation of the draft building manuals by builders
  - the approval of the draft building manual by RBSs
  - the update of the approved building manual by owners/owners corporations (including the breadth of building work that will need to be incorporated into the manuals)
- the scale and frequency of any additional costs associated with the introduction of the building manual – this should be over and above the current situation where building manuals are not formally required
- any factors that drive variation in the estimate of costs provided, including the difference between costs across building classes
- the degree to which any of the new requirements and their corresponding activities are already undertaken by industry – for example, the extent to which documentation is already prepared, stored, and maintained by building practitioners and subsequent building owners.

Section 2.6.8 - Request for inputs from stakeholders on the expected benefits of the proposed Regulations

Given the uncertainty regarding the nature and likelihood of achieving benefits, DTP welcomes all stakeholders with views on the likely impacts of the proposed Regulations to share these with DTP through submission as part of the consultation process for this RIS, including consideration of the following:

- the types of benefits to be gained from improved access to information through the introduction of a building manual – this may include, for example, improved efficiency (time savings) and/or a reduction in non-compliance with building standards and associated harms
- the likely scale and frequency of these benefits relative to the current situation where building manuals are not formally required
- any factors that might drive variation in the estimate of benefits provided
- the feasibility or likelihood that benefits would be achieved and conditions that achievement of benefits might depend on.

Additional mandatory inspections

Section 3.5.3 - Request for input from stakeholders through the RIS process

The assessment of options has been undertaken based on DTP's expectations of the likely level of effort involved in specific tasks that would be required by regulation and based on historical VBA data regarding the volume of buildings that might be affected.

DTP invites stakeholders with additional data or information to inform the DTP's understanding of the impact of providing that data or information during the public consultation process, which is intended to test the rationale put forward in this RIS for the preferred option.

Section 3.6.1.5 - Request for inputs from stakeholders on the expected costs of the proposed Regulations

DTP welcomes all stakeholders with views on the likely costs of the proposed Regulations to share these with DTP through a submission as part of the consultation process for this RIS, including consideration of the following:

- the nature of any costs associated with:
  - the administrative burden of notification by builders of a mandatory inspection stage (for waterproofing and pre-lining work) and any associated delays.
  - the inspection by RBSs (including the time and effort for the inspection itself, as well as any other costs associated with an inspection such as record keeping).
- the scale and frequency of any additional costs associated with the introduction of additional mandatory inspection stages – this should be over and above the current situation where inspections for waterproofing and pre-lining stages are not formally required.
- any factors that drive variation in the estimate of costs provided, including the difference between a VBA guidance note, Ministerial Guidelines and prescriptive regulatory requirements.
- the degree to which any of the new requirements and their corresponding activities are already undertaken by industry – for example, the extent to which inspections are already undertaken for waterproofing and pre-lining stages of work.
- Whether the content of the proposed Ministerial Guidelines would be more appropriately included in a practice note.

Section 3.6.1.6 - Request for inputs from stakeholders on the expected benefits of the proposed Regulations

Given the uncertainty regarding the nature and likelihood of achieving benefits, DTP welcomes all stakeholders with views on the likely impacts of the proposed Regulations to share these with DTP through submission as part of the consultation process for this RIS, including consideration of the following:

- the types of benefits to be gained from additional mandatory inspections, including a reduction in instances of non-compliance with building standards and any associated harms and/or avoidance of costs associated with rectifying non-compliance sooner
- the likely scale and frequency of these benefits be relative to the current situation where inspections are not mandatory for waterproofing and pre-lining stages of work
- any factors that might drive variation in the estimate of benefits provided.

Section 5.2 - Request for inputs from stakeholders on the implementation of the proposed Regulations

Stakeholders are invited to provide comments on whether the proposed commencement timeframes are appropriate, including consideration of the following:

- Whether sufficient time is provided for industry to prepare for the implementation of the proposed Regulations.
- Whether additional guidance is required to support implementation.

Appendix B: Proposed contents of building manuals

Required contents of a draft building manual

Regulation	Detailed Documentation List
Summary and purpose of building manual	• A summary approved by the Authority, detailing the proposed use and purpose of the building manual.
A copy of the application for the building permit for the building including any accompanying documents required under regulations 24	• Copy of the planning permit • Building permit drawings • Specifications for materials and methods used in construction • Allotment plans • Statement of proposed use • Computations or reports for compliance with Act and Regulations • Plans showing differences between existing and proposed building work, if applicable • Engineering reports confirming structural integrity compliance.
Additional information and copies of any documents accompanying an application for the building permit as required under regulation 29	• Measures for public protection • Documentary evidence supporting product/material or design usage • Extract of major domestic building contract • Evidence of domestic building insurance • Survey plan of existing conditions • Certificate of title or proof of ownership • Information on flooding, termite risk, significant snowfalls, or bushfire-prone areas • List of essential safety measures to be provided.

A copy of a report and consent of a reporting authority relating to a prescribed matter referred to in— (i) regulation 31(a) or (c); or (ii) any of the item numbers 25 to 30 in column 2 of the Table in Part 2 of Schedule 5	• **Part 1:** Fire safety matters not meeting BCA provisions: fire hydrants; fire control centres or rooms; fire precautions during construction; fire mains; control valves; booster assemblies; emergency vehicle access; fire indicator panels; fire services controls in passenger lifts.
	• **Part 3:** construction of buildings over easements
	• **Part 2:** certain matters to be reported to council (items 25-30)
	  ◦ Precautions over street alignment (reg. 116(4))
	  ◦ Installation/alteration of septic tank systems, or construction over existing systems (reg. 132(1))
	  ◦ Point of discharge for stormwater (reg 133(2))
	  ◦ Buildings above/below public facilities (reg 134 (2))
	  ◦ Construction on land liable to flooding (reg 153 (2))
	  ◦ Building on designated land or works (reg 154 (1)).

A copy of the building permit issued for the construction of the building in accordance with regulation 37.	• Building permit signed by the relevant building surveyor.
A copy of the Building Permit and supporting documents 39(1)(b)	• Building Permit (including amendments) • copies of the plans and specifications of the proposed building work with evidence of approval stamped and endorsed on them

Regulation	Detailed Documentation List
	• Copies of computations and reports lodged with the application.
A copy of a Performance Solution Determination (regulation 38)	• Building surveyor's determination of the performance solution • Assessment method • Expert judgement • Tests or calculations • Relevant standards or information.

A copy of the documents submitted to Council (regulation 44)	Building Permit (including amendments)
	• Notice given to the relevant building surveyor under section 25AA(1) regarding changed ownership for a suspended building permit for work that is being carried out by an owner builder
	• Notice given to the relevant building surveyor regarding:
	  • ending the engagement of a builder
	  • engaging a subsequent builder.
	Determinations and Consents:
	• Determination made by the relevant building surveyor on whether protection work is required.
	• Notice served on the adjoining owner and relevant building surveyor related to protection work (section 84(1) of the Act).
	• Response from the adjoining owner regarding protection works notice (section 85(1)(b) of the Act).
	• Determination made by the relevant building surveyor regarding the protection works required following adjoining owners response (section 87(1) of the Act).
	• Any determinations made by the Building Appeals Board.
	• Report and consent from a reporting authority
	• Record of a performance solution meeting a performance requirement of the Building Code of Australia (BCA) (regulation 38).
	• Determination by the municipal building surveyor or a private building surveyor exercising the functions of a municipal building surveyor (regulation 64(1)).
	Requirements and Certifications:
	• Document setting out requirements to protect public safety (regulation 116).
	• Certificates issued related to building work, including any related records by building practitioners (section 238 of the Act).
	Exemptions and Consents:
	• Regulation 229(2): Exemptions or consents related to use of a building.
	• Regulation 231(2): Exemptions or consents related to subdivisions of existing buildings.
	• Regulation 233(3): Exemptions or consents related to alterations to existing buildings and compliance.
	• Regulation 234(2): Exemptions or consents related to exit paths.
	
	Additional Documents:

Regulation	Detailed Documentation List
	• Any additional information requested by the RBS under Clause 2, Schedule 2 of the Act. • Copy of any permit for the construction, installation, or alteration of a septic tank system issued under section 53M(5) of the Environment Protection Act 1970 (If applicable).
A copy of Protection Work Notice (section 84 and regulation 113)	• Protection works notice (Form 7) • Determination from the RBS on necessity for protection works • Statement on the protection work process and dispute resolution • Plans/specifications for building work affecting adjoining property • Plans/specifications showing how protection work will safeguard adjoining property
A copy of the Occupancy Permit Application (regulation 186) and the Occupancy permit	• Occupancy permit application (Form 15) • Plumbing compliance certificates • Electrical compliance certificates.
Building Notices (regulation 179)	• Copies of building notices • Inspection reports • Owner's response with additional evidence or documentation • Plan for rectification (if applicable) • Certificates of compliance (if applicable).
Building Notices Orders (regulation 181)	• Copies of building orders • Inspection reports • Rectification plan • Compliance certificate after rectification • Final inspection report.
Asset Register (Owners Corporation Act 2006) (common or shared property)	• Asset register for common property • List of assets (e.g., elevators, fire systems) • Warranties and service contracts for major systems
A copy of the Occupancy Permit Application (regulation 192) and the Occupancy Permit (form 16)	• A copy of the occupancy permit

Required updates for an approved building manual

Regulation	Required Documents
Building Permits as outlined 205C	• A copy of the building permit and all relevant information required under proposed regulation 205C • A copy of any occupancy permit issued under regulation 186, confirming the building is safe for occupation; or

Regulation	Required Documents
	• A copy of the final inspection certificate under regulation 186 if the work doesn't require an occupancy permit but requires a final inspection to confirm compliance.
Plumbing Work (Common or Shared Property)	• Description of Plumbing Work in a form approved by the authority describing the plumbing work carried out on common property. • A certificate from a licensed plumber certifying that the plumbing work complies with the Plumbing Regulations and standards required under section 221ZH of the Building Act 1993.
Electrical Work (Common or Shared Property)	• Description of electrical work in a form approved by the authority. • A certificate issued by a licensed electrician under section 44 of the Electricity Safety Act 1998, certifying that the electrical work complies with safety standards.
Maintenance Records	• Maintenance determinations • Maintenance schedules • Annual safety measure report
Asset Register	• A copy of the updated asset register, detailing assets on common property or in common areas.
Swimming Pool Compliance	• Pool and Spa Compliance Certificate: Issued under regulation 147Y or 147ZB, confirming that the pool or spa barriers meet the required safety standards. • Rectification Notice: Issued under regulation 147ZI if the pool or spa does not comply with safety standards, outlining required corrective actions.
Emergency Order (section 102 of the Act)	• A copy of the emergency order issued under section 102 of the Building Act 1993, requiring urgent work to be undertaken.
Electrical Safety Check (section 68B of the Residential Tenancies Act 1997)	• A copy of the safety certificate issued after electrical work on common property or in common areas, ensuring the work complies with safety standards under section 68B of the Residential Tenancies Act 1997.
Gas Safety Check (section 68B of the Residential Tenancies Act 1997)	• A copy of the gas safety certificate issued after gasfitting work on common property or in common areas, ensuring the gas work complies with safety standards under section 68B of the Residential Tenancies Act 1997.
Exemptions or Partial Compliance	• Issued by a building surveyor or municipal building surveyor granting exemptions or partial compliance for certain regulatory requirements:

Appendix C: Cost parameters

New building projects

Cost	Source	Value
Class 1b	Victoria in Future projections of new dwellings, apportioned based on ABS Building Activity data and VBA permit data.	30 buildings/year
Class 2	Victoria in Future projections of new dwellings, apportioned based on ABS Building Activity data and VBA permit data.	550 buildings/year
Class 3	VBA permit data, based on the average annual new building permits supplied since 2014.[1]	40 buildings/year
Class 4	Victoria in Future projections of new dwellings, apportioned based on ABS Building Activity data and VBA permit data.	20 buildings/year

Building manuals

Note: where relevant, all reported values are adjusted to 2024 Australian Dollars. All wage estimates include an additional 75% to capture overheads, as per the Victorian Regulatory Change Measurement Manual.

Cost	Class	Source	Value
Costs of preparing manual			
Time taken to collate building manual	Class 1b	Estimate based on the CIE report and stakeholder consultation.	15 hours
	Class 2	Estimate based on the CIE report and stakeholder consultation.	30 hours
	Class 3	Estimate based on the CIE report and stakeholder consultation.	37.5 hours
Value of building practitioner's time	All	CPD RIS	$151/hour
Costs of updating manual			
Time taken to update the manual	Class 1b	Estimate based on consultation with Victorian Strata Association	26 hours per building per year
	Class 2, 3	Estimate based on consultation with Victorian Strata Association	52 hours per building per year
Split of updaters between professional and non-professional property managers	All	Building Commission NSW (2023). Research on serious building defects in NSW strata communities	55% professional/ 45% non-professional

[1] Alternative method used for Class 3 buildings because they are classified as non-residential in ABS Building Activity Data.

Value of alternative use of time for professional property managers	All	Indeed.com (2024). 'Property Manager' search	$72/hour
Value of alternative use of time for non-professional property managers (assumed to be leisure time)	All	ABS (2024). Average Weekly Earnings. Victorian figures, adjusted for tax	$39/hour
Costs of reviewing manual			
Time taken to review the manual	Class 1b	VBA guidance based on Building Legislation Amendment Act	3.75 hours
	Class 2, 3	VBA guidance based on Building Legislation Amendment Act	7.5 hours
Value of RBS's time	All	Building Regulations RIS (2017)	$260/hour
Costs of developing educational/guidance material			
VPS 5 cost	All	DTP calculation	$129/hour
VPS 6 cost	All	DTP calculation	$159/hour
VPS 5 educational materials time allocation	All	DTP estimate	2 FTE months
VPS 6 educational materials time allocation	All	DTP estimate	1 FTE month
Costs of storing manuals			
IT upgrade to support manual storage	All	VBA guidance	$400,000
Benefit of manual use			
Split of updaters between professional and non-professional property managers	All	Building Commission NSW (2023). Research on serious building defects in NSW strata communities.	55% professional /45% non-professional
Value of alternative use of time for professional property managers	All	Indeed.com average property manager salary	$72/hour
Value of alternative use of time for non-professional property managers (assumed to be leisure time)	All	ABS (2024). Average Weekly Earnings. Victorian figures, adjusted for tax	$39/hour

Additional mandatory inspections

Note: where relevant, all reported values are adjusted to 2024 Australian Dollars. All wage estimates include an additional 75% to capture overheads, as per the Victorian Regulatory Change Measurement Manual.

Cost	Class	Source	Value
Costs of submitting notifications for inspection			
Time taken to submit notification for inspection	All	DTP estimate	0.1 hours
Value of building practitioner's time	All	CPD RIS	$151/hour
Delay costs			
Value of other residential construction	All	ABS (2024). Building Activity	$8.1b
Scalar to capture class 3	All	VBA cost of work data	1.05
Annual rate of return	All	DTF Regulatory Change Measurement Manual	6.5%
Delay for each inspection	All	DTP estimate	3 days
Costs of conducting inspections			
Waterproofing inspections per building	Class 2	VBA prescribed events data – fire safety inspections.	4 inspections/building
	Class 3	VBA prescribed events data – fire safety inspections.	4 inspections/building
	Class 4	VBA prescribed events data – fire safety inspections.	2 inspections/building
Pre-lining framework inspection per building	Class 2	VBA prescribed events data – framework completion inspections.	2 inspections/building
	Class 3	VBA prescribed events data – framework completion inspections.	2 inspections/building
	Class 4	VBA prescribed events data – framework completion inspections.	2 inspections/building
Time taken to conduct inspection	All	Building Regulations RIS (2017), based on parameters for the time for an inspection plus three hours for travel and documentation.	4.5 hours
Value of RBS's time	All	Building Regulations RIS (2017)	$260/hour

Costs of developing educational/guidance material			
VPS 5 cost	All	DTP calculation	$129/hour
VPS 6 cost	All	DTP calculation	$159/hour
VPS 5 educational materials time allocation	All	DTP estimate	2 FTE months
VPS 6 educational materials time allocation	All	DTP estimate	1 FTE month

Costs of rectification

Note: where relevant, all reported values are adjusted to 2024 Australian Dollars. All wages estimates include an additional 75% to capture overheads, as per the Victorian Regulatory Change Measurement Manual.

Cost	Source	Value
Rectification cost of waterproofing non-compliance at completion	CIE Report	$22,335
Rectification cost of framing non-compliance at completion	CIE Report	$9,627
Proportion of rectification costs incurred if an instance of non-compliance is rectified during construction, rather than completion (central)	WA RIS	70%
Proportion of rectification costs incurred if an instance of non-compliance is rectified during construction, rather than completion (sensitivity 1)	WA RIS	40%
Proportion of rectification costs incurred if an instance of non-compliance is rectified during construction, rather than completion (sensitivity 2)	ACIL Allen report	15%
Prevalence of waterproofing non-compliance per building	CIE Report, scaled to Victoria	0.39 instances of non-compliance/ building
Prevalence of framework non-compliance per building	CIE Report, scaled to Victoria	0.25 instances of non-compliance/ building