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D22/226369

Mr John Batho
Deputy Secretary, Consumer Affairs, Liquor, Gaming and Dispute Services
Department of Justice and Community Safety
Level 26, 121 Exhibition St
MELBOURNE VIC 3000

29 December 2022

Dear Mr Batho,

REGULATORY IMPACT ASSESSMENT FOR THE RESIDENTIAL TENANCIES (ROOMING HOUSE STANDARDS) REGULATIONS 2022

I would like to thank your staff at the Department of Justice and Community Safety (the Department) for working with the team at Better Regulation Victoria to prepare a Regulatory Impact Statement (RIS) for the Residential Tenancies (Rooming House Standards) Regulations 2023 (the proposed Regulations). The proposed Regulations will replace the Residential Tenancies (Rooming House Standards) Regulations 2012 (the current Regulations) which are due to sunset on 27 February 2023.

As you know, the Commissioner for Better Regulation provides independent advice on the adequacy of the analysis provided in all RISs in Victoria. A RIS is deemed to be adequate when it contains analysis that is logical, draws on relevant evidence, is transparent about any assumptions made, and is proportionate to the proposal's expected effects. The RIS also needs to be written clearly so that it can be a suitable basis for public consultation.

I am pleased to advise that the final version of the RIS received by us on 29 December 2022 meets the adequacy requirements set out in the *Subordinate Legislation Act 1994*.

Background

A rooming house is a property where four or more people can occupy its rented rooms, each with their own rooming house agreement. It is different to a share house where co-tenants are listed on one residential rental agreement. Rooming house residents will usually have their own lockable bedroom, share kitchen and bathroom facilities. Rooming houses are a lower-cost form of rental accommodation. There are currently over 1,370 rooming houses registered on Consumer Affairs Victoria's public register of rooming houses. The number of rooming houses in Victoria has grown by about 70 per cent since 2011, with most being situated in the Local Government Areas of Monash, Greater Geelong, Whitehorse, Greater Dandenong and Frankston.

Rooming house residents are predominantly people who cannot afford to rent in the general private rental market, often university students and low-income people.

The *Residential Tenancies Act 1997* outlines the rights and duties of rooming house operators and residents. The current Regulations impose minimum standards on operators including requirements for the provision of lockable rooms, a minimum of two power outlets in each bedroom, and openable windows. The current Regulations set some standards for rooming houses, while other regulatory schemes establish licencing and registration requirements or prescribe other requirements for rooming houses.

Problem Analysis

The RIS explains that poor-quality housing can have a significant negative impact on an individual's physical and mental health and their overall quality of life. This is why, as the Department outlines, it is necessary to prescribe minimum standards for various aspects of rooming houses.

The RIS explains that many of the issues that are associated with the quality and safety of rooming houses arise from the vulnerability of many rooming house residents. This vulnerability is exacerbated given that residents have limited alternative accommodation options.

The Department explains that without the existing Regulations, rooming house quality would be expected to decline over time, leading to safety and health risks for residents.

Options

In the RIS, the Department sets out the need to address the following objectives:

1. Reduce the loss of life, injury, and trauma caused by inadequate safety measures in rooming houses.
2. Reduce detrimental effects on comfort and quality of life for residents of rooming houses caused by substandard living conditions; and
3. Ensure the rooming house sector remains an appropriate housing option for Victorians seeking affordable accommodation.

The Department explains that it considered non-regulatory options, such as information or education campaigns for residents and operators, but these options were regarded as being ineffective at improving standards on their own. Therefore, the Department assesses the following two options:

- *Option 1 (the current Regulations)* involves remaking the current Regulations which prescribe requirements such as regular gas & safety checks; provision of kitchen and dining facilities; and natural lighting requirements.
- *Option 2 (the preferred option)* includes the requirements in Option 1 and introduces several new or increased requirements including requiring an energy efficient heater, working washing machine, and increasing the frequency of electrical safety checks from every 5 to every 2 years.

Impact Analysis

The RIS notes that due to the difficulty of quantifying the benefits of the Regulations, the analysis focusses on quantifying expected costs, outlines the nature of the benefits and provides a breakeven analysis to determine how likely the benefits are to exceed costs.

In its analysis, the Department assumes that operators will fully comply with all Regulations. It also assumes that where the Regulations replicate requirements in other regulatory schemes, the cost of compliance can be attributed to the Regulations. Both these assumptions provide a conservative (upper bound) estimate of costs. A higher compliance rate also leads to higher benefits.

Under Option 2 (preferred option), total costs are estimated to be \$33.6 million over the ten-year life of the Regulations. Cost estimates for both options are summarised in net present value (NPV) terms in the table below.

	Option 1	Option 2
Operators	\$19.0m	\$27.3m
Government	\$5.0m	\$5.0m
Energy retailers	\$0	\$1.3m
Total	\$24.0m	\$33.6m

The key costs for operators identified in the RIS under Option 1 are the provision of dining facilities, the provision of natural light and ventilation, and gas and electrical safety checks, which together comprise more than half of the costs incurred. The key additional expected costs for operators identified under Option 2 are to install a fixed heater in communal living spaces, provide a washing machine for every 12 residents, and provide window coverings in every room; which together comprise more than half the additional costs incurred. Option 2 includes a number of other minor changes that mean operators will incur some additional cost.

The annual costs per rooming house are estimated to be about \$1,350 for Option 1 and \$1,940 for Option 2. The RIS explains that rooming houses typically generate between \$1,200 and \$1,500 in revenue per week, implying that the costs of the options represent 1.8 to 3.1 per cent of revenue for operators. The RIS explains that it is difficult to estimate to what extent these costs may ultimately be passed on to residents.

Operators required to install energy or water efficient appliances can access subsidies through the VEU scheme, which results in a transfer of costs from operators to energy retailers as retailers fund the VEU scheme.

In terms of administration, compliance and enforcement costs, the Department expect that these will be the same under each option. These costs are estimated based on the estimated Departmental staff time spent on rooming houses.

The key benefits identified for Option 1 include a reduced risk of death, injury, psychological harm or theft due to increased minimum safety features such as locks, regular safety checks and the presence of basic furnishing such as fridges.

The key additional benefits identified for Option 2 include decreased risks of:

- fire from more frequent electrical safety checks,
- children choking on un-anchored window blind cords,
- illness and thermal discomfort due to the absence of heaters, and
- poor hygiene due to the absence of a washing machine.

The Department explains that it expects that the benefits of Option 2, which comprise avoided deaths and reduced risk of injury, theft or psychological harm, to exceed the estimated costs of \$33.6 million and therefore to breakeven. The Department uses a value of a statistical life of about \$9m and given the estimated costs of Option 2 of \$33.6 million, would break-even if they result in 3.7 avoided deaths over the next decade, excluding other benefits. The Department notes that if the costs are lower than those estimated in the RIS, the benefits required to breakeven would also be lower.

Implementation and Evaluation

The Department commits to continuing its existing monitoring and enforcement program. It will also conduct an information campaign and update its guidance to communicate the new minimum standards to operators and residents.

The Department explains it will use complaints and inspection data as well as information from stakeholders to monitor and evaluate the effectiveness of the Regulations.

Should you wish to discuss any issues raised in this letter, please do not hesitate to contact my office on (03) 7005 9772.

Yours sincerely



Anna Cronin

Commissioner for Better Regulation