

Regulatory Impact Statement  
Building system reform

# Buyer Protections Regulations 2025

 Department of Transport and Planning  
December 2025





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## Glossary

<b>Acronym</b>	<b>Full name</b>
<b>ASIC</b>	Australian Securities and Investments Commission
<b>BRV</b>	Better Regulation Victoria
<b>BPC</b>	Building and Plumbing Commission
<b>BPL</b>	Building Permit Levy
<b>BSAP</b>	Building Special Advisory Panel
<b>BTR</b>	Build-to-rent
<b>CIE</b>	Centre for International Economics
<b>COVID-19</b>	Coronavirus disease of 2019
<b>DBCA</b>	<i>Domestic Building Contracts Act 1995</i>
<b>DBDRV</b>	Domestic Building Dispute Resolution Victoria
<b>DBI</b>	Domestic Building Insurance
<b>DBS</b>	Developer bond scheme
<b>DLI</b>	Decennial liability insurance
<b>DTP</b>	Department of Transport and Planning
<b>FHWS</b>	First-resort Home Warranty Scheme
<b>MCA</b>	Multi-criteria analysis
<b>MFR</b>	Minimum financial requirements
<b>NCC</b>	National Construction Code
<b>OC</b>	Owners corporation
<b>PCA</b>	Plumbing Code of Australia
<b>QHWS</b>	Queensland Home Warranty Scheme
<b>QLD</b>	Queensland
<b>RBS</b>	Relevant Building Surveyor
<b>RIS</b>	Regulatory Impact Statement
<b>RO</b>	Rectification Order
<b>SBBIS</b>	Strata Building Bond and Insurance Scheme



<b>VAGO</b>	Victorian Auditor-Generals Office
<b>VBA</b>	Victorian Building Authority
<b>VCAT</b>	Victorian Civil and Administrative Tribunal
<b>VMIA</b>	Victorian Managed Insurance Authority

### **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 regulations.

The Department of Transport and Planning acknowledges the assistance of Deloitte in contributing to the preparation of this RIS.

This RIS has been prepared for the express purpose of assessing 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.



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## Executive Summary

Recent inquiries into the Victorian building sector found the legislative and regulatory framework governing building work was previously insufficient to effectively safeguard consumers. In particular, the inquiries found that systems did not provide adequate oversight over building work or accessible and effective pathways for rectifying building defects. High-profile building industry failures following the COVID-19 pandemic exposed shortfalls in the domestic building consumer protection framework. In particular, the accessibility of domestic building insurance (DBI) and the fragmented nature of regulatory roles and responsibilities were considered inadequate to protect consumers. Together, the inquiries and post-COVID events created a strong case for reform in the domestic building sector.

To address these shortcomings, the Victorian Government initiated comprehensive reform of the building system, marked by the enactment of the *Building Legislation Amendment (Buyer Protections) Act 2025* (the Buyer Protections Act) and the *Domestic Building Contracts Amendment Act 2025* (the DBCA). The regulations supporting the Buyer Protections Act, which is the subject of this Regulatory Impact Statement (RIS), introduce a range of measures to enhance consumer confidence in the industry, strengthen regulatory oversight, and improve the quality of building work.

Key reforms introduced through the Buyer Protections Act include the:

- **Integration of domestic building regulatory functions** under the new, one-stop-shop, the Building and Plumbing Commission (BPC). The Buyer Protections Act transferred responsibility for the Domestic Building Dispute Resolution Victoria (DBDRV) and the delivery of DBI from, respectively, the Department of Government Services and the Victorian Managed Insurance Authority (VMIA) to the Victorian Building Authority (VBA). The intent of this reform was to streamline and simplify regulatory responsibilities, thereby better equipping the building regulator to oversee the domestic building industry. These reforms were implemented on 1 July 2025, initiating the operation of the BPC.
- **Developer Bond Scheme (DBS):** Establishes a bond mechanism to provide security for consumers to rectify reportable defective building work in residential apartment buildings four storeys and above.
- **First-resort Home Warranty Scheme (FHWS):** Replaces the existing "last-resort" DBI model with a "first-resort" warranty scheme for domestic buildings three storeys or less, protecting consumers without the previous DBI triggers of the builder's death, insolvency, or disappearance.
- **Minimum Financial Requirements (MFRs):** Introduces proportionate and targeted financial reporting and oversight arrangements that strengthen builders' financial capabilities and improve regulatory visibility of industry health. The framework replaces fragmented and opaque underwriting practices with transparent, rules-based thresholds proportioned to business size and risk. It equips the regulator with powers to monitor compliance and take timely action against financially unsound operators whose conduct threatens building quality, consumer confidence and the livelihood of compliant builders. Further details on MFRs will be released in a separate consultation process in early 2026.
- **Rectification Orders (ROs):** Empowers the regulator to issue orders requiring builders, developers, or other responsible parties to rectify defective, non-compliant, or incomplete building work.

While the Buyer Protections Act provides the legislative framework for these initiatives, detailed implementation will be guided by supporting regulations. This RIS assesses the potential effects of the proposed Regulations on consumers, the building industry, and government stakeholders.



## The problem

Victoria's building system faced significant challenges stemming from insufficient regulatory oversight and fragmented accountability. The previous system failed to provide adequate supervision of building work and were ineffective at resolving disputes about building defects quickly, leaving consumers to navigate prolonged and costly dispute resolution processes. These systemic gaps contributed to widespread non-compliance, low-quality construction practices, and an increased burden on homeowners to resolve defects.

### Market and regulatory failure in the Victorian building system

In the building industry, commercial incentives (such as time and cost savings) can lead to non-compliance with industry standards. In turn, this creates risks often borne by other parties, including financial costs for owners, safety risks for occupants, loss of confidence in the building industry and broader impacts on the Victorian community.

The prevalence of building defects has risen in recent years. The VBA's Proactive Inspection Program reported an increase in compliance risk rates from 31 per cent in Q1 2020<sup>1</sup> to 39 per cent in Q4 2023.<sup>2</sup> Research also indicates widespread non-compliance with the National Construction Code (NCC), with defect rectification costs in Victoria estimated at \$675 million annually for Class 1 and Class 2 buildings.<sup>3</sup> Average rectification costs across Australia are approximately \$4,366 for detached houses and \$12,238 for apartments.<sup>4</sup>

The increase in defects is driven by market failure. Builders typically hold more knowledge about construction quality and potential defects than consumers. Many defects are difficult for prospective buyers to detect before purchase or occupation, as they may be hidden or emerge over time. This information asymmetry, where one party (the builder) possesses more or better information than the other (the buyer), has resulted in poorer outcomes where home buyers acquire properties with defects that are expensive to rectify, leading to reduced confidence in the building sector.

Further, the complexity of modern construction work means that information asymmetry can also operate within the building industry itself. In some cases, even builders may not be able to readily determine whether certain practices or product choices will lead to defects, with issues only becoming apparent once the defect manifests. This was highlighted in consultation with surveyors and builders.

Responses to these risks has historically been inconsistent. Builders and developers who failed to meet standards often face limited or delayed consequences, allowing non-compliant practices to continue. State bodies such as the former VBA and DBDRV historically had limited powers to sanction or pursue non-compliance, leaving consumers to initiate action themselves. This required navigating multiple agencies and initiating lengthy processes at tribunals and courts, which increased costs and delays.

These challenges were compounded by the insolvencies of high-volume builders such as Porter Davis Homes and Langford Jones, which affected thousands of homeowners across the state. These events led to financial losses, safety concerns, project delays and greater reliance on government intervention.

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<sup>1</sup> Victorian Building Authority, Proactive Inspections Program Activity January to March 2020.

[https://www.vba.vic.gov.au/\\_\\_data/assets/pdf\\_file/0016/116350/Proactive-Inspections-Program-Activity-Report-Q3.pdf](https://www.vba.vic.gov.au/__data/assets/pdf_file/0016/116350/Proactive-Inspections-Program-Activity-Report-Q3.pdf)

<sup>2</sup> Victorian Building Authority, Proactive Inspections Program Activity Report Financial year 2022-23 Q4. <

[https://www.vba.vic.gov.au/\\_\\_data/assets/pdf\\_file/0008/172349/VBA-PIP-Report-Q4-22-23.pdf](https://www.vba.vic.gov.au/__data/assets/pdf_file/0008/172349/VBA-PIP-Report-Q4-22-23.pdf)>

<sup>3</sup> The Centre for International Economics (2021), Building Confidence Report: A case for intervention. <

<https://www.abcb.gov.au/sites/default/files/resources/2022/Building-confidence-report-case-intervention.pdf>>

<sup>4</sup> Ibid.



## The residual problem

The Buyer Protections Act introduces important consumer protections in the domestic building sector. The legislation sets the overarching framework, while regulations are needed to specify operational details and ensure the schemes function as intended.

- **DBS:** Apartment owners in residential apartment buildings four storeys and above previously lacked the protections provided through DBI to homeowners in buildings up to three storeys high. The DBS introduced through the Buyer Protections Act addresses this lack of consumer protection, but key operational matters require supporting regulations.
- **FHWS:** The new scheme is designed to close gaps in consumer protection evident with last-resort DBI. The FHWS will enable the consumer to make claims for insurance cover, even if the builder is still trading. However, critical details such as terms of cover, financial limits, periods of cover, exclusions and claim processes must be prescribed in regulations.
- **MFRs:** Intend to strengthen the financial sustainability of domestic builders and give the regulator visibility of builders' financial position. They increase transparency and, alongside the wider reforms, are expected to improve the financial sustainability of the domestic building industry. However, the Act provides only the enabling powers to prescribe the detail critical to implement MFRs, such as financial thresholds and reporting requirements. Without these regulations, MFRs cannot operate, and the objectives of the reform cannot be achieved. Further details on MFRs will be released in a separate consultation process in early 2026.
- **ROs:** The Act establishes the framework for stronger enforcement powers through ROs, with only limited matters left to regulation. These include minor procedural requirements relating to capturing details of ROs on the Register of Building Practitioners.

## Approach to analysis

This RIS considers a range of proposed Regulations that support the introduction of legislation that provides additional protections for Victorian home buyers. As such, this RIS provides a proportionate and tailored assessment of the potential impacts on affected stakeholders, based on the scope and significance of options as well as the availability of data. In doing so, this RIS seeks further input from stakeholders to inform the final decision-making process.

## Addressing uncertainty in quantifying costs and benefits

Empirical research and stakeholder consultations were undertaken to gather insights on the costs and benefits of the proposed Regulations. The empirical analysis included a review of publicly available reports, recent inquiries into the Victorian building sector, annual reports of relevant agencies, and academic and industry literature. While this research provided useful insights into current building practices, there are limitations in the available evidence base which hinder the ability to confidently assess the overall impact of the reforms. These include:

- Evaluating the cumulative system-wide effects of overlapping reforms. To do so is complex, making it difficult to isolate incremental impacts from previously legislated measures
- Industry responses are also expected to vary widely based on project size, complexity, and practitioner capacity.

DTP also undertook stakeholder consultations to inform the design of reform options. This included a series of workshops with the Building Special Advisory Panel (BSAP) working group, engagement with the Building Regulations Advisory Committee (BRAC), public discussion papers and semi-structured interviews with building practitioners. While stakeholders provided useful perspectives on implementation and practical issues to consider, they could not provide direct estimates of the associated costs and benefits of the new



reforms. It is noted that there is likely to be significant variation in the responses of builders and consumers to the new buyer protection schemes based on the variation in the circumstances that apply to each project.

To address the challenges posed by this variation, all options considered in this RIS are discussed qualitatively using a multi-criteria analysis (MCA) applied where there are significant differences in impact between options to identify the preferred approach, offering a structured way to compare options, even where precise quantification is not possible.

Where feasible, the RIS also seeks to quantify certain costs to illustrate their size and scale for different stakeholder groups. These estimates are based on a combination of available data, historical trends and comparable policy settings in other jurisdictions. As such, these estimates of costs should be interpreted as illustrative case studies, providing examples of how impacts may arise under different circumstances rather than definitive projections. Break-even analysis is then applied to illustrate both the potential scale of benefits in these specific examples and the points at which those benefits would be realised.

The RIS also includes targeted questions, inviting stakeholders to provide further evidence or perspectives on areas where DTP is specifically seeking input (in addition to more general feedback, stakeholders may wish to provide through the public consultation process). This approach helps address gaps in the available data, refine assumptions made in this RIS and to improve understanding of potential impacts, risks and unintended consequences. Stakeholder submissions and responses to these specific questions as well as any other general feedback received through the public consultation process, will be valuable for informing the Government's decision on the content of the proposed Regulations when they are made.

## The developer bonds scheme

### Definition of reportable defective work

#### Options

The Buyer Protections Act stipulates that upon completing each inspection, the appointed building assessor is required to produce a report detailing any identified reportable defective building work. The Buyer Protections Act defines *reportable defective building work* to be "defective building work that is prescribed to be reportable defective building work." The Buyer Protections Act also defines the term *defective* to include any breach of warranties listed in section 8 of the *Domestic Building Contracts Act 1995* (DBCA) and "a failure to maintain a standard or quality of building work specified in the domestic building contract under which the work is carried out". In this respect, the definition of reportable defective building work must be defined in the Regulations to provide clarity on what defects are covered under the developer bonds scheme.



The following options are considered in this RIS:

- **Option 1: All defective building work<sup>5</sup> in common property<sup>6</sup> and private residential lots<sup>7</sup>**
- **Option 2: All defective building work in common property and non-compliant work<sup>8</sup> in private residential lots**
- **Option 3: Non-compliant building work only in both common property and private lots**

These options and the MCA for reportable defective work is explained in detail in Chapter 4.

### **Inclusion of non-residential lots**

Residential apartment buildings can contain non-residential lots such as cafes and shops. The primary intent of the DBS is to improve consumer protections for owners of homes in these buildings. However, serious defects within non-residential lots have the potential to impact common property and private residential lots within the building. For instance, failures in waterproofing or fire protection systems in non-residential lots can cause issues and pose safety risks for other parts of the residential apartment building.

Subsequently, DTP has included serious defects in non-residential lots as a sub-option within the scope of the preferred option. However, the threshold for defective work would be higher for non-residential lots than for residential lots and common property.

It is proposed that defects in non-residential lots that meet the criteria for serious defects as defined in Part 5 of the Buyer Protections Act are to be included within the definition of reportable defective building work. Only defective work in non-residential lots that meets the following criteria will be covered:

- A defect in a major building element that is caused by non-compliant work; or
- A defect in the building work or in a building product that either has a defective design, workmanship or materials that can cause the building to be uninhabitable, destroyed or collapse;
- The use of unsafe building products;
- Any other prescribed defects.

There is insufficient data on the prevalence of non-residential lots in residential apartment buildings. There is also inadequate data on the prevalence of serious defects in such lots that can impact common property and private lots within the residential apartment building.

A non-preferred sub-option for the scope of cover for non-residential lots was considered but not progressed by the Department. In this non-preferred option, the building assessor would make a subjective assessment on whether a serious defect that occurs within a non-residential lot would impact upon the common property or a private residential lot of the apartment building. Only serious defects that would have an impact on the rest of the apartment building would be considered by the assessor as reportable defective building work.

Because this non-preferred sub-option was not progressed, it has not been factored into the analysis of options for the scope of reportable defective building work. Furthermore, as the inclusion of non-residential

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<sup>5</sup> Defective work, as defined by the Buyer Protections Act, refers to building work that breaches any warranty listed in Section 8 of the *Domestic Building Contracts Act 1995* (DBC Act) or fails to maintain a standard or quality of building work specified in the domestic building contract under which the work is being carried out. Section 8 of Domestic Building Contracts Act 1995 covers implied warranties concerning all domestic building work. These include warranties that the work will be done properly, with reasonable care and skill, using suitable and (unless stated otherwise) new materials, and in compliance with all legal requirements.

<sup>6</sup> Common property refers to any areas within a residential apartment building that are not lots on the plan of subdivision.

<sup>7</sup> Lots are parts of the buildings that can be separately sold and owned such as apartments and car spaces.

<sup>8</sup> Non-compliant work is defined as work which is in breach of the building permit and/or building laws, including the Building Act, the Building Regulations 2018 and Plumbing Regulations 2018. This type of work fails to meet the minimum required legal standards for building work.



lots is common across all three options (via the preferred sub-option), it has not been captured in the incremental scoring between options in the MCA.

### Options analysis and identification of a preferred option

The criteria outlined in *Table i* were selected to assess the options for defining reportable defective building work. The direct cost impact on stakeholder groups has been accounted for in the MCA, highlighting who bears the initial burden of regulatory change. While the MCA reflects the immediate cost impacts, the final distribution of costs may shift over time as these changes flow through the residential apartment market.

The assigned weightings reflect DTP’s prioritisation of policy objectives, balancing consumer protection and an improvement in building quality. Both benefit criteria have been weighted equally as both align with the scheme’s core objective of safeguarding consumers and restoring trust in the building industry.

The costs to developers and costs to apartment owners and Owners Corporations (OC) are weighted equally at 20 per cent, recognising the need to minimise financial impacts on these key groups. By contrast, the costs to Government are weighted lower at 10 per cent, as DTP places greater value on minimising the impacts borne by private stakeholders, such as homeowners and developers, over those incurred by the Government itself.

*Table i: MCA criteria for reportable defective building work*

<b>Criterion</b>	<b>Description</b>	<b>Weighting</b>
<b>Benefits</b>		
Improved consumer protection and confidence	The extent to which the option achieves consumer protection objectives through appropriate defect rectification measures and enhances consumer confidence in the industry. This criterion also assesses the extent to which there are residual rectification costs for residents due to limitations in the bond’s coverage.	25%
Promotion of improved building quality and standards	The extent to which the option incentivises developers to improve the quality and standard of their building work.	25%
<b>Costs</b>		
Costs to developers	The extent to which the option imposes costs on developers that would not have been incurred in the base case.	20%
Costs to consumers	The extent to which the option imposes administrative costs on apartment owners and OCs.	20%
Costs to Government	The extent to which the option imposes administrative costs on the Government.	10%
<b>Total weighted score</b>		<b>100%</b>

The MCA identifies Option 1 as the preferred option, achieving the highest weighted score among the options evaluated as presented in *Table ii*. This definition provides the most comprehensive coverage for apartment owners and reduces the risk that minor defects escalate into more serious safety hazards. By providing broader coverage, Option 1 improves consumer confidence and reduces potential long-term costs associated with rectifying defects after completion.

Option 1 also establishes stronger incentives for developers to maintain high construction standards across both private lots and common property. This includes encouraging proactive quality control and compliance



with building standards, which supports better overall outcomes for residents and contributes to the long-term integrity of the building sector.

These benefits are not without trade-offs. Implementing Option 1 may increase the complexity of inspections and compliance processes, and result in higher costs for both developers and government administration. However, it is expected that the benefits will outweigh the costs and result in a net positive result for all stakeholders.

Defects are prevalent in Victorian buildings with the cost of rectification tending to increase over time. Addressing defects early may involve upfront expenditure for the developer, but timely intervention can prevent significantly higher costs in the future. As early intervention reduces the risk of defects compounding or causing secondary damage, the long-term financial benefits are likely to outweigh initial costs. Additionally, swift rectification can enhance occupant confidence and reduce broader economic and reputational risks for the sector, further increasing the benefits.

Below the illustrative case study provides an example of the potential costs to stakeholders from the DBS as a whole and the number of defects that would need to be avoided for the costs to break even. While this quantification exercise incorporates Option 1 as the preferred option for the definition of reportable defective building work, it also considers the other proposed Regulations for developer bonds as well as the requirements as set out by the Buyer Protections Act itself. This includes the quantification of financial costs and compliance costs (including administrative costs, bank guarantee fees and building assessor fees). However, the specific costs associated with the definition of reportable defective building work have not been able to be quantified in isolation.

This case study suggests that after accounting for financial transfers, the total approximate costs of the DBS are estimated at \$31.2 million annually statewide. This is predominantly driven by developer bank guarantees which are primarily attributed to the Buyer Protections Act. The only compliance costs attributable to the Regulations would be the building assessor fees, which are prescribed in the proposed Regulations.

Table ii: Overview of MCA scores for defining reportable defective building work

Criterion	Weighting	Base case	Option 1	Option 2	Option 3
<b>Benefits</b>					
Improved consumer protection and confidence	25%	0	9	7	5
Promotion of improved building quality and standards	25%	0	8	6	4
<b>Costs</b>					
Costs to developers	20%	0	-7	-5	-3
Costs to apartment owners and OC	20%	0	-1	-0.75	-0.5
Costs to Government	10%	0	-4	-3.5	-3
<b>Total weighted score</b>		<b>0</b>	<b>2.25</b>	<b>1.75</b>	<b>1.25</b>

## Prescribing qualifications for building assessors

### Options

The Buyer Protections Act requires the developer to appoint a building assessor who will carry out inspections and prepare reports outlining any reportable defective building work. In doing so, the Buyer Protections Act requires regulations to prescribe the qualifications necessary for a qualified person to be able to perform the functions of a building assessor. Three options have been identified for prescribing qualifications for building



assessors. These options are compared against a base case where no qualifications for building assessors are prescribed. In such a scenario, the scheme would not function in the intended fashion, and various legislative provisions would become ineffective. A developer would be unable to nominate an assessor for approval by the relevant owners corporation, and the BPC would be required to appoint a person as a building assessor under all circumstances. This would increase the administrative requirements placed upon the BPC, to a degree that is greater than if qualifications for building assessors were prescribed.

Furthermore, the absence of any prescribed qualifications for building assessors could generate uncertainty for both prospective building assessors and the BPC regarding the appropriate eligibility criteria required for this role. This ambiguity could discourage qualified building practitioners, inspectors, surveyors, and other professionals from putting themselves forward to be building assessors. This would limit the pool of potential assessors. For these reasons, it is preferable to prescribe qualifications for building assessors.

The following options are considered in this RIS:

- **Option 1: Persons holding current registration in certain categories and classes of building practitioner:** Under this option, building practitioners holding any of the following current registration are deemed to possess the qualifications and technical skills to carry out the functions of the building assessor:
  - o Building surveyor (unlimited)
  - o Building inspector (unlimited)
  - o Domestic builder (unlimited)
- **Option 2: Inspector panels maintained by authorised professional associations:** The Buyer Protections Act provides that authorised professional associations may accredit persons to carry out the functions of a building assessor if they are satisfied that the person holds the knowledge and experience suitable for carrying out the functions of a building assessor. Under this option, the Regulations would list the associations authorised to accredit building assessors.<sup>9</sup>
- **Option 3: Persons holding current registration in certain categories and classes of building practitioners, as well as ability for BPC to approve appropriate persons as a qualified person for the role of building assessor:** As with Option 1, Option 3 will see building practitioners holding any of the following current registration as deemed to possess the qualifications and technical skills to carry out the functions of the building assessor:
  - o Building surveyor (unlimited)
  - o Building inspector (unlimited)
  - o Domestic builder (unlimited).

In addition to this, the BPC may assess and approve applications from persons who wish to be deemed as a qualified person for performing the role of a building assessor. This could include professionals who are deemed by the BPC as being appropriately qualified, but who do not possess an active registration.

### Options analysis and identification of the preferred option

The criteria used to assess the identified options for building assessor qualifications are described in *Table iii*. The criteria for evaluating building assessor qualification options focus on simplicity, consumer protection, and costs. Simplicity ensures the pathway to becoming an assessor is clear and consistent, making it

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<sup>9</sup>Equivalent regulations in New South Wales authorise 11 associations to accredit strata inspector panels (the NSW equivalent of building assessors). These include the Housing Industry Association, Master Builders Association of New South Wales Pty Ltd, Australian Institute of Building Surveyors, Australian Institute of Building Consultants Pty Ltd., Australian Society of Building Consultants Incorporated, Institute of Building Consultants Inc, Engineers Australia Pty Ltd, Association of Accredited Certifiers Incorporated, Australian Institute of Quantity Surveyors and RICS Australasia Pty Ltd. It is likely that similar organisations would be considered in Victoria under this option.



accessible and straightforward for industry and practitioners. Improved consumer protection assesses how well each option ensures qualified assessors and Government oversight to enhance accountability and safety.

Consumer protection has been weighted higher than simplicity to reflect that it is directly tied to the Government's core policy objective of enhancing apartment owners' ability to have defective work identified and rectified through the DBS. Cost considerations evaluate the financial impact on industry associations, practitioners, and the Government. Together, these criteria help identify the most balanced and effective option for establishing a qualified and sustainable building assessor workforce.

The MCA for building assessor qualifications is discussed in detail in Chapter 5.

*Table iii: MCA criteria for assessing options for building assessor qualifications*

<b>Criterion</b>	<b>Description</b>	<b>Weighting</b>
<b>Benefit criteria</b>		
Simplicity in understanding the requirements to become building assessors	The extent to which the pathway to become a building assessor is straight forward and well understood by the industry and practitioners. The option also considers the consistency of requirements across the industry.	20%
Improved consumer protection	The extent to which this option enables consumer protection through Government oversight over practitioner eligibility and through a well-qualified building assessor workforce.	30%
<b>Cost criteria</b>		
Costs to industry associations	The extent to which the option imposes costs on industry associations.	20%
Costs to practitioners	The extent to which the option imposes costs on practitioners who would like to become building assessors.	20%
Costs to Government	The extent to which the option imposes administrative costs to the Government.	10%

The MCA identifies Option 3 as the preferred option for setting building assessor qualification. As presented in *Table iv*, Option 3 achieves the highest weighted score due to its significant consumer protection benefits and simplicity. Option 3 increases the pool of potential building assessors by expanding the eligibility to a broader range of professions contingent on the BPC's approval of the relevant application, including those without current registrations. The impacts of this include reducing risks of workforce shortages and consequent delays for consumers. The BPC's role in assessing and approving applications from persons outside of the pre-approved categories also provides additional oversight to the persons deemed appropriate to undertake inspections for the scheme. While Option 3 poses moderate increases in practitioner and government costs, these are balanced by improved assessor availability and minimal regulatory burden for professional associations.

The case study below provides an example of the potential costs to stakeholders from the DBS as a whole. However, the specific costs associated with the prescription of building assessor qualifications have not been able to be quantified in isolation.



Table iv: Summary of MCA scores for building assessor qualifications

Criterion	Weighting	Base case	Option 1	Option 2	Option 3
<b>Benefits</b>					
Simplicity in understanding the requirements to become a building assessor	25%	0	10	6	9
Improved consumer protection	25%	0	7	5	8.5
<b>Costs</b>					
Costs to industry associations	20%	0	-2	-7	-1
Costs to practitioners	20%	0	-2	-2	-2.5
Costs to Government	10%	0	-2	-1	-3
<b>Total weighted score</b>		<b>0</b>	<b>3.1</b>	<b>0.85</b>	<b>3.40</b>

## Other minor amendments

There are several aspects of the regulations that are primarily operational in nature and define the scope of the DBS as set out in legislation. These include several fees associated with the scheme, which are expected to generate only a small amount of revenue and are therefore considered low impact. The annual revenue from DBS related fees collected by the BPC is estimated at approximately \$930,460. While these proposed fees and other regulatory design settings have not been subject to detailed options analysis, the rationale behind their selection, as well as any direct impact they may have on the size and scale of the costs or benefits, has been outlined in this RIS.

### IMPACT ANALYSIS CASE STUDY: DEVELOPER BOND SCHEME

This case study illustrates the potential operation and impacts of the DBS. The purpose of this case study is to provide an indicative assessment of costs and benefits to stakeholders of the DBS as a whole (based on the combination of preferred options identified in the MCA and other scheme requirements stipulated in the Buyer Protections Act). These estimates are not precise forecasts but serve to demonstrate the likely scale and distribution of costs under the scheme and to provide context for the regulatory impacts. In this case study, a lot refers to one apartment in the building.

#### Base case cost of rectifying defects

Currently, owners of lots in residential apartment buildings four storeys and above face significant challenges in recovering costs associated with defects. Existing consumer protection mechanisms in Victoria are limited, often leaving lot owners to manage the financial and administrative burden of defect rectification themselves.

Based on modelling by the Centre for International Economics, average per costs of fixing defects in one lot are estimated at \$13,000, including:

- Rectification costs: \$9,300 (including repairs and contributions to OC)
- Time costs: \$1,700 (opportunity cost of owner's time spent coordinating repairs, liaising with experts, attending meetings)
- Other costs: \$2,000 (including legal fees, temporary accommodation, technical reports and transport).<sup>10</sup>

<sup>10</sup> The Centre for International Economics (2021): Building Confidence Report.



In a typical 66-apartment building<sup>11</sup> with an average of two defects per lot (132 defects), total rectification costs are approximately \$1.6 million,<sup>12</sup> with owners bearing \$1 million and developers \$580,000 based on current defect rectification methods (including the OC's insurance, builder or home warranty insurance, or dispute resolution).<sup>13</sup>

Extrapolated statewide for 400 new class 2 buildings annually,<sup>14</sup> lot owners could face \$400 million in defect rectification costs per year, while developers would incur \$232 million. These figures highlight the disproportionate cost burden currently borne by consumers.

### **Financial impact of the DBS**

The DBS aims to redistribute the financial responsibility for defect rectification from lot owners to developers. Under the Buyer Protections Act, developers would be required to issue a bond equal to 2 per cent of total construction costs, approximately \$610,000 for a 66-apartment building. In practice, this bond is expected to be drawn upon to cover defect rectification costs.

Under this case study:

- Developer contributions to defect rectification would increase to approximately \$1.2 million per building.
- Direct owner costs of rectification would fall to roughly \$390,000 per residential apartment building.
- Statewide, this represents a transfer of \$244 million annually from owners to developers, reducing owner costs by approximately 40 per cent.

This redistribution provides owners with improved financial protection and shifts the risk of rectifying defects to developers, encouraging higher-quality construction and greater accountability in project delivery. While the total net impact of rectifying defects remains unchanged, the distribution of direct rectification costs is materially improved for consumers.

### **Compliance costs**

Developers and owners are expected to incur incremental compliance costs under the DBS.

For developers, these costs include:

- Administrative tasks such as understanding DBS requirements, nominating building assessors, issuing bonds, and notifying the BPC (~50 hours per bond)<sup>15</sup>
- Building assessor fees (~\$250 per lot,<sup>16</sup> or \$17,000 per building)
- Bank guarantee establishment and ongoing fees (~\$55,000<sup>17</sup> for a \$610,000 bond over 3.5 years).

This results in an estimated total compliance cost per residential apartment building of \$77,000 for

<sup>11</sup> Based on the average number of apartments per building as assumed by the Centre for International Economics.

<sup>12</sup> Note: Not all apartment owners will incur the full \$13,000 rectification cost, as research by the Centre for International Economics indicates that defects are addressed through various measures with differing costs. Consequently, the estimated total rectification cost per apartment building is \$1.6 million, which is lower than the \$1.7 million figure calculated by multiplying \$13,000 by the average of 66 lots.

<sup>13</sup> The Centre of International Economics (2021): Building Confidence Report.

<sup>14</sup> Deloitte analysis of building permit data.

<sup>15</sup> Deloitte assumption.

<sup>16</sup> New South Wales Government (2023), Mandating Decennial Liability Insurance Regulatory Impact Statement. <[https://hdp-au-prod-app-nsw-haveyoursay-files.s3.ap-southeast-2.amazonaws.com/8216/9897/4614/22878f6fc96b44992b83756d17b0ee38\\_RegulatoryImpactStatementDecennialLiabilityInsurance.pdf](https://hdp-au-prod-app-nsw-haveyoursay-files.s3.ap-southeast-2.amazonaws.com/8216/9897/4614/22878f6fc96b44992b83756d17b0ee38_RegulatoryImpactStatementDecennialLiabilityInsurance.pdf)> Note the source indicates that inspectors in NSW charge \$125 per dwelling for an inspection. This has been multiplied by 2 in the case study to reflect both the preliminary and final inspection.

<sup>17</sup> Based on a 2.5 per cent per annum fee for bank guarantee.



developers. Owners' compliance costs are smaller, primarily reflecting administrative time to coordinate inspections and claims (~\$1,000 per residential apartment building). Across 400 developer bonds annually, total compliance costs are estimated at \$31.2 million statewide, predominantly driven by developer bank guarantees. The Buyer Protections Act allows for the use of bank guarantee to lodge the bond, and therefore the costs of the guarantee can be attributed to the Buyer Protections Act. The only compliance costs attributable to the proposed Regulations would be the building assessor fees which are prescribed in the proposed Regulations.

### Economy-wide impacts

The table below illustrates the expected statewide costs based on an assumption of 400 developer bonds being issued annually. These bonds represent the costs per new residential apartment building, as bonds will be required for all new residential apartment buildings that are four storeys and above (unless an exemption to issue a bond applies). For this example, all costs associated with each bond are counted in the year it is lodged.

The financial impact of the bond amount itself represents a transfer between developers and owners, resulting in a net impact of zero. Using an indicative average bond value of \$610,000, this amounts to a total transfer of \$244 million per year.

In addition to this transfer, compliance costs to OCs and developers are expected to amount to \$31.2 million per year. These costs represent the incremental costs to stakeholders associated with the DBS.

	Financial costs	Compliance costs	Total costs
Impact on owners	-\$244,000,000	\$400,000	-243,600,000
Impact on developers	\$244,000,000	\$30,800,000	\$274,500,000
<b>Net impact</b>	<b>0</b>	<b>\$31,200,000</b>	<b>\$31,200,000</b>

### Break-even analysis

Break-even analysis has been used to estimate the point at which the expected benefits of the preferred option equal the costs of the DBS, as illustrated in the example above. Based on the potential scale of economy-wide costs, the benefits of introducing the DBS would need to exceed \$31.2 million per year.

The value of avoided defects serves as the primary metric for the break-even analysis due to its alignment with the DBS's central objective to improve building quality. This metric is also the most quantifiable benefit, allowing for a clear assessment of the scheme's economic impact. While other benefits are anticipated, such as enhanced consumer confidence in the building industry, their value is difficult to measure and is complicated by concurrent regulatory reforms, making it difficult to isolate the specific contribution of the DBS.

On a per-building or per-bond basis, the compliance cost of the DBS is estimated at \$78,000. Assuming an average rectification cost of \$13,000 per defect, six defects would need to be avoided per residential apartment building on average to cover the associated compliance costs.

This break-even point is considered feasible given that an average building with 66 lots is expected to have approximately 132 defects across the building, based on historical defect data. Avoiding just 6 of these defects represents a relatively small proportion (approximately 4 per cent) of the total.

Extrapolating to the economy-wide level, there would be an estimated 53,000 defects in new residential apartment buildings constructed each year. The cost of rectifying these would be an estimated \$686 million while the estimated compliance cost for developers state-wide would be approximately \$31.2 million. Therefore, on average, 22 new residential apartment buildings would need to be defect-free for the costs to break even. This represents 6 per cent of all in-scope buildings constructed each year.



As the DBS is expected to incentivise improved construction practices and accountability among developers, the DBS is well positioned to reduce defect rates and contribute to economic savings that offset its compliance costs.

Source: Deloitte Access Economics



## FHWS

### Options

The Buyer Protections Act transitioned Victoria's DBI scheme from a last-resort to a first-resort model. However, regulations are required to give effect to the first-resort scheme. The regulations will prescribe:

- The types of assistance available to consumers under the FHWS
- The types of defects and periods of cover the FHWS applies to the building work
- Maximum amount of cover
- Exclusion types
- Claim management
- Insurance triggers
- Builder notification time periods and methods.

The base case presumes that no regulations are prescribed across any of the above areas. As a result, although the FHWS is legally established, it would not be able to function in practice, as there would be no operational details in place to guide its operation. The following three options comprise different combinations of the above design settings for the warranty scheme.

- **Option 1: Aligned to previous Victorian DBI scheme:** The proposed Regulations under Option 1 would prescribe operational details which would align the new FHWS introduced under the Buyer Protections Act with the previous last-resort DBI scheme. The scope of building work that is eligible for insurance and parameters of cover are the same.<sup>18</sup> However, Option 1 will allow consumers to make an insurance claim as a first resort rather than a last resort.
- **Option 2: Bespoke model:** Option 2 expands on DBI and the Queensland Home Warranty Scheme (QHWS) insurance parameters with the aim of boosting consumer protection. Option 2 clarifies the cover period for waterproofing and weatherproofing defects, retains the cover period for structural and non-structural defects, improved maximum amounts of cover compared to DBI and draws on both DBI and the QHWS for exclusions and claims processes.
- **Option 3: Aligned to current QHWS model:** Option 3 was designed using the QHWS, given Queensland is the only state with a first-resort insurance scheme for domestic building work. Option 3 is similar to Option 2 in the areas of work covered under the FHWS. However, Option 3 uses all of the QHWS's parameters – such as maximum amounts, periods of cover and types of available assistance. Under Option 3, consumers may claim for loss in value if they are not entitled to assistance in certain circumstances.

### Options analysis and identification of a preferred option

The criteria outlined in *Table v* have been selected to assess the options for the FHWS. Benefit criteria have been designed to assess how well each option achieves consumer protection outcomes, such as timely defect rectification, safe habitation, and improved confidence in the building industry, while also promoting better building quality and compliance. Consistency is also considered as it is likely to increase regulatory clarity which can improve both the efficiency and effectiveness of the warranty scheme. Consumer protection and building quality are weighted highest at 20 per cent each because they directly support the key policy objectives. Consistency is weighted lower, as it relates to regulatory alignment and clarity, which improve efficiency but are less critical than reducing harm. DTP prioritises criteria that most directly enhance consumer outcomes and building standards.

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<sup>18</sup> The scope of the current DBI scheme is restricted to domestic building work worth \$16,000 or higher in buildings three storeys and under. Structural defects are covered for six years while non-structural defects are covered for two years.



Cost criteria consider the financial and administrative impacts on consumers, industry stakeholders, and Government. Government costs are weighted lower than costs to consumers and industry. This reflects the principle that the reforms are designed primarily to safeguard consumers and support the viability of the building sector. As such, DTP places greater value on the impacts borne by these groups than on costs incurred by Government itself.

These criteria help identify the most effective and practical option to enhance consumer protections and building quality outcomes while minimising regulatory burden on stakeholders.

Table v: MCA criteria for FHWS options

Criterion	Description	Weighting
<b>Benefit criteria</b>		
Achievement of consumer protection outcomes	The extent to which each option reduces residual risk borne by consumers (building owners) after defective, non-compliant or incomplete domestic building work is identified. This includes: <ul style="list-style-type: none"> <li>– The likelihood that consumers can access rectification in a timely, affordable and fair way</li> <li>– The security of remaining in a safe and habitable home</li> <li>– Broader confidence in the building industry</li> </ul>	20%
Improvement of building work quality	The extent to which each option incentivises improvements in the quality of building work, reducing the likelihood of defective, non-compliant or incomplete domestic building work during initial construction. This includes better workmanship and compliance with building standards.	20%
Consistency	The extent to which the options are consistent with: <ul style="list-style-type: none"> <li>– Best practice and industry recommendations</li> <li>– Existing frameworks for DBI applied in other Australian jurisdictions</li> <li>– Existing and planned Victorian legislation</li> </ul>	10%
<b>Cost criteria</b>		
Costs to consumers	The extent to which each option imposes financial or administrative costs on consumers including premiums, residual out-of-pocket costs not covered by insurance, and the administrative burden of understanding, access or claiming under the scheme.	20%
Costs to industry	The extent to which each option imposes costs on industry (building practitioners) including the administrative burden of lodging policies and premiums, any costs associated with claims handling or cost recovery mechanisms and any behavioural or operational changes required to minimise risk (and avoid insurance claims).	20%
Costs to Government	The extent to which each option imposes resourcing or financial costs on Government, including the administration of the warranty scheme, processing of claims, and regulatory oversight.	10%

A summary of the MCA scores across all options and criteria is presented in *Table vi*. The result of the MCA shows that Option 2 is the preferred option, achieving the highest weighted score among the evaluated options.



Option 2 provides a balanced approach to the FHWS. It offers broad coverage and the highest maximum claim amounts<sup>19</sup> while remaining consistent with other Victorian legislation. This option allows consumers to claim for a wider range and value of defective or incomplete work, helping to offset the financial burden to consumers currently associated with rectification under the base case and improving consumer confidence. Option 2 is also expected to improve the quality of building work the most by creating the largest financial and reputational incentives for builders to undertake rigorous quality assurance throughout the construction process.

These benefits come with certain trade-offs, including an increased premium to consumers when compared to the base case, and moderate costs to industry through an increased administrative and compliance burden. Further, as Option 2 has a broader coverage, there is an expected increase in administrative cost to the Government associated with a rise in claims relative to the base case.

A case study is provided below as an illustrative example of the costs to various stakeholders and the number of disputes that would need to be avoided for the costs to break even. This case study suggests that the introduction of the FHWS, through the Buyer Protections Act and proposed Regulations, would impose an estimated incremental administrative burden of \$3.3 million per year on the BPC. If one VCAT dispute is estimated to cost stakeholders \$20,400, approximately 168 VCAT cases would need to be avoided each year for the administrative costs of the scheme to break even.

Chapter 8 discusses the MCA for the FHWS in detail.

Table vi: Summary of MCA scores for FHWS

Option	Weighting	Base Case	Option 1	Option 2	Option 3
Achievement of consumer protection outcomes	20%	0	4	6	5
Improvement of building quality	20%	0	2	5	4
Consistency	10%	0	3	6.6	5
Cost to consumers	20%	0	-1	0.5	1.25
Cost to industry	20%	0	-2	-5	-5
Cost to Government	10%	0	-2	-3.5	-3
<b>Weighted score</b>		<b>0</b>	<b>0.65</b>	<b>1.50</b>	<b>1.25</b>

<sup>19</sup> While Option 3 has the highest claim amount overall at \$600,000, sub-limits of \$200,000 each apply for incomplete, defective work or defined events. By contrast, option 2 has an aggregate limit of \$400,000 without sub-limits for each claim type.



## **IMPACT ANALYSIS CASE STUDY: FHWS**

This case study illustrates the potential operation and impacts of the FHWS. The purpose is to provide an indicative assessment of costs and benefits to stakeholders of the FHWS, recognising that the proposed Regulations are intended to give effect to the warranty scheme as set out in the Buyer Protections Act. These estimates are not precise forecasts but serve to demonstrate the likely scale and distribution of costs under the scheme and to provide context for the regulatory impacts.

The Buyer Protections Act transferred VMIA's DBI business and functions to the BPC and made the BPC responsible for administering the FHWS. As a result, most of the administrative and financial impacts of the proposed amendments are expected to fall on the BPC.

### **Illustrative increase in claims**

Expanding eligibility under the FHWS means more homeowners can make a claim, not just those whose builder has died, disappeared or become insolvent. Using historical VMIA data as a proxy, this could result in an additional 1,530 claims annually, with an estimated total cost of \$96 million (including payments and administrative costs). Approximately 96.5 per cent of these costs would be transfers between homeowners, builders, and the BPC, rather than net costs to the system.

### **Administrative burden to the BPC**

Processing these additional claims would also create new administrative burden for the BPC. Assuming a claims handling expense of 3.5 per cent of claim payments, the administrative cost of managing the additional 1,530 claims is estimated at \$3.3 million. This cost is the key incremental cost over and above the base case.

### **Cost transfers and incentives for builders**

Under the current last-resort scheme, many consumers bear the cost of rectification themselves or pursue expensive dispute resolution through Victorian Civil and Administrative Tribunal (VCAT) or courts. By expanding eligibility, the FHWS shifts these costs onto builders and the FHWS.

The way costs are distributed depends on how defects are resolved:

- Builders may voluntarily rectify defects upon notification, avoiding further escalation
- If not, ROs issued by the BPC can compel builders to rectify defects
- Where a builder fails to comply, the BPC would pay out the claim for the building owner and subsequently pursue cost recovery from the builder or other party at fault for the defect

However, estimating the net cost impact on builders remains difficult. Earlier resolution under a first-resort model may also reduce the actual cost of rectification. Defects left unresolved tend to worsen over time, making them more costly to fix. By encouraging quicker intervention, the warranty scheme may produce efficiency gains, decreasing net rectification costs whilst protecting consumers.

### **Consumer impacts**

Consumers are not expected to face significant, new administrative burdens under the warranty scheme. While some effort will be required to understand eligibility and complete claims paperwork, these are relatively minor compared to the costs avoided through reduced reliance on VCAT or courts.

### **Break-even analysis**

This section estimates the volume of dispute resolution that must be avoided through VCAT or court cases to break even from the incremental administrative costs that would be incurred by the BPC. The table summarises the VCAT costs incurred by the Government, builders and consumers.



Dispute resolution through VCAT results in significant costs for consumers. Consumers are required to pay fees to have their matter heard. Between 2022-2023, the average VCAT fee for matters relating to the DBC Act was \$607.<sup>20</sup>

**Consumers may also incur additional costs in preparing for the VCAT process such as securing expert reports and legal advice. There is limited data available on these costs, but these are expected to be significant in terms of time and effort. Expert reports can cost more than \$2,500,<sup>21</sup> while legal fees can cost more than \$200 per hour.<sup>22</sup> The actual costs would depend on a range of factors including the complexity of the case, the volume of defects involved, and the value of rectification required.**

In addition to financial costs, consumers often have to face long waiting times before their case is heard at VCAT. The average wait time between application and hearing for building and construction related cases at VCAT is 52 weeks.<sup>23</sup> During this time, consumers would likely experience stress and inconvenience from living in properties with unresolved defects or unfinished building work.

This prolonged uncertainty impacts their daily lives and overall well-being. Additionally, the ongoing presence of defects may lead to further deterioration of building quality, which would further increase the cost of rectification. A conservative assumption of \$10,000 has been assumed for this case study.

The dispute resolution costs for builders have been assumed to be lower than those incurred by consumers. Consumers could require specialised technical and legal advice to navigate the process effectively, resulting in higher out-of-pocket expenses. In contrast, builders on average would have relatively better access to internal expertise and legal resources, which would enable them to manage disputes more efficiently. Furthermore, builders who are members of industry groups would have the option to seek advice from these organisations. Consumers may also struggle with understanding procedural requirements and collecting the necessary evidence, particularly if builders are uncooperative. This can further increase the time and cost involved.

Additionally, consumers often face an imbalance in negotiating power and may experience emotional and psychological stress throughout the process, adding to the overall burden.

Stakeholder	Cost per VCAT dispute
VCAT	\$3,400 <sup>24</sup>
Builders	\$7,000 <sup>25</sup>
Consumers	\$10,000 <sup>26</sup>
<b>Total</b>	<b>\$20,400</b>

The introduction of the FHWS would impose an estimated annual incremental administrative burden of \$3.3 million on the BPC. If one VCAT dispute is estimated to cost stakeholders \$20,400, approximately 168 VCAT cases would need to be avoided each year for the administrative costs of the scheme to break even.

Evidence suggests that around 12 per cent of cases handled by DBDRV progress to VCAT.<sup>27</sup> Currently, based on an average of 5,780 cases resolved by DBDRV (including fully resolved and withdrawn cases), approximately 700 building-related disputes reach VCAT annually. This means that around a quarter of all VCAT cases would need to be avoided each year to offset the incremental costs. Alternatively, the average cost per VCAT case would need to be reduced by 25 per cent.

DTP anticipates that the introduction of the FHWS will lead to a reduction in consumers bringing matters against builders related to incomplete or defective work to VCAT, as most claims will be resolved directly through BPC intervention (either by issuing rectification orders or arranging rectification works). Consumers will retain the option to challenge BPC decisions at VCAT if their claims are not approved. Therefore it is likely that a reduction of up to a quarter of current VCAT cases is

feasible, enabling the warranty scheme to break even. Currently, the number of BPC decisions challenged by consumers at VCAT is unclear. Therefore, the estimates provided in this case study are indicative benchmarks, rather than precise forecasts. These estimates provide a practical sense of the scale of impact required for the warranty scheme to offset its administrative costs.

## ROs

The scope and requirements of an RO are described within the Buyer Protections Act. However, regulations are required to establish the information that is contained within a RO, as well as the details that will be available to the public on an online register when an RO is issued.

- **Additional information for inclusion in an RO:** The proposed regulations will prescribe that a RO must contain any conditions specified by the BPC.
- **Details of RO to be published online:** Proposed regulations will see the BPC publish all ROs on the existing Register of Building Practitioners and will provide BPC with discretion to publish these details.

There are only minor costs expected to industry or consumers regarding the proposed Regulations. Industry will only see impacts (such as financial losses associated with out-of-pocket rectification work) from these amendments if they are not actively complying with ROs. Industry may see minor benefits because of the regulations, as the increased prescribed detail will allow them to have a comprehensive and clear understanding of what needs to be rectified.

While Regulations will impose some administrative burden on the BPC because it will be responsible for due to the need to maintaining the register, it is not expected to be significant.

## Small business and competition impacts

### DBS

The introduction of the DBS would impose costs on all developers, including administrative, financial, and compliance costs. The bond requirement, particularly over a 3.5-year period, may constrain cash flow and limit small developers' capacity to invest in new projects. Administrative requirements may also disproportionately affect small businesses due to limited compliance resources.

However, requiring bonds for defect rectification, the scheme may see the warranty scheme shift competition towards building quality. This shift will provide a potential advantage to developers who consistently deliver high-quality work.

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<sup>20</sup> Victorian Auditor General's Office (2024), Domestic Building Oversight Part 2: Dispute Resolution. <[https://www.audit.vic.gov.au/sites/default/files/2024-06/20240619\\_Domestic-Building-Oversight-Part-2-Dispute-Resolution.pdf](https://www.audit.vic.gov.au/sites/default/files/2024-06/20240619_Domestic-Building-Oversight-Part-2-Dispute-Resolution.pdf)>

<sup>21</sup> The Property Inspectors, The Property Inspectors Fees. <<https://thepropertyinspectors.com.au/fees/>>

<sup>22</sup> Pentana Stanton Lawyers (2025), Lawyer fees in Melbourne explained for everyone. <<https://pentanastanton.com.au/lawyer-fees-in-melbourne-guide/>>

<sup>23</sup> Victorian Civil and Administrative Tribunal, How long a VCAT case takes? <<https://www.vcat.vic.gov.au/the-vcat-process/when-vcat-starts-a-case/how-long-vcat-case-takes>>

<sup>24</sup> Victorian Auditor General's Office (2024), Domestic Building Oversight Part 2: Dispute Resolution.

<sup>25</sup> Deloitte assumption.

<sup>26</sup> Deloitte assumption.

<sup>27</sup> Victorian Auditor General's Office (2024), Domestic Building Oversight Part 2: Dispute Resolution.



## **FHWS**

The proposed FHWS creates compliance incentives for all practitioners whilst reducing the burden on consumers. Practitioners may be required to rectify defects at their own cost or have costs recovered by the BPC post-claim. Smaller businesses and sole traders may experience proportionally stronger incentives to comply due to increased limited financial and operational capacity. These impacts primarily affect non-compliant practitioners; those meeting obligations are unlikely to face additional burdens.

Competition impacts are mixed. There are arguments that interstate builders may reconsider entering the Victorian market if they perceive the regulatory settings to be too robust or expensive relative to other jurisdictions. However, higher compliance and building standards are expected to strengthen competition across compliant practitioners and improve overall sector performance.

## **ROs**

The proposed regulations are unlikely to have a disproportionate impact on small businesses or sole traders. Competition is also not expected to be impacted.

## **Implementation**

DTP expects that the proposed Regulations will be finalised in early 2026, with anticipated commencement by 1 July 2026. Along with the BPC, DTP will work with key stakeholders to ensure the industry is appropriately informed and prepared for the implementation of Regulations.

The BPC is responsible for communicating with stakeholders and ensuring they are aware of the proposed changes. The primary mechanism for communication will be through a stakeholder engagement and communication plan. This plan will identify affected stakeholders, their interests and how the relationships are to be managed.

Monitoring the implementation of the proposed Regulations is the responsibility of the BPC and DTP. Specific implementation requirements will be mapped to guide the relevant business unit within the BPC.

## **Evaluation**

The proposed Regulations are considered high impact under the Victorian Guide to Regulation, triggering the requirement for a mid-term evaluation. The Building Regulations 2018, which will contain the provisions for the ROs, are due to sunset in 2028. However, given the proposed amendments regarding MFRs, and ROs will have been in effect for only approximately two years by the time of the scheduled sunset review in 2027-28. DTP considers that a mid-term evaluation of these measures would be premature and unlikely to produce meaningful or reliable outcomes. The FHWS and DBS will be introduced through standalone regulations which will sunset in 2036. A mid-term evaluation of these Regulations will be conducted in 2031.

The BPC will support DTP in assessing the effectiveness of the elements introduced by the Buyer Protections Act (DBS, FHWS and ROs) through a holistic evaluation of economic, environmental and social impacts, including unintended consequences. Key actions will include developing evaluation questions, establishing an outcomes logic framework, baseline data and KPIs, designing a data collection strategy, and reporting findings.

As regulator, the BPC will collect data on scheme uptake (such as the number and value of developer bonds, insurance policies and claims, ROs issued, and average number, types, and costs of defects), while stakeholder consultation will provide further insights. Interviews and surveys with Government, industry bodies, consumer representatives and other interested stakeholders will help to understand implementation issues, reasons for non-compliance, unintended impacts, and the scale of administrative, compliance and enforcement costs.



## Questions for stakeholders

DTP invites stakeholders to make submissions on how the proposed Regulations may impact them or their industry through the public submission process.

DTP seeks advice and input from stakeholders regarding:

### **Questions - DBS**

1. The prevalence of non-residential lots in residential apartment buildings of four storeys and above.
2. The frequency and costs associated with rectifying defective building work in these non-residential lots
3. The prevalence and distribution of defective and non-compliant building work in Class 2 buildings.
4. The distribution of defects between common property and private lots in class 2 buildings.
5. How contractual defects liability periods and statutory warranties contribute to the rectification of defective and non-compliant building work.
6. Administrative burden and costs for owners corporations and owners corporations managers in arranging for defect rectification in common property and private apartments.
7. Frequency and allocation of defect rectification costs among developers, owners corporations, and builders.
8. Frequency with which developers voluntarily rectify defective and non-compliant work.
9. Dispute resolution costs incurred by consumers, owners corporations, builders and developers related to defective and non-compliant work.
10. Any costs to professional associations in establishing and maintaining inspector panels.
11. Any anticipated costs to prospective building assessors not captured in the analysis below.
12. Any anticipated impacts on the supply of building assessors if eligibility is limited to those holding current registrations of Building Surveyor (Unlimited), Building Inspector (Unlimited) and Domestic Builder (Unlimited).
13. Any anticipated impacts on the availability of Building Surveyors (Unlimited), Building Inspectors (Unlimited), and Domestic Builders (Unlimited) if individuals from these occupations are diverted to spending more time as building assessors rather than continuing in their current roles.
14. A
15. Upfront costs such as internal systems updates or staff training likely to be incurred by developers in preparing for the DBS.
16. Any additional costs expected to be incurred by consumers, developers and developers that have not been considered in the RIS.
17. Any additional benefits expected to be gained from the DBS that have not been considered in the RIS.

### **Questions – FHWS**

18. Any expected costs to consumers from the proposed FHWS.
19. Any expected costs to industry from the proposed FHWS.
20. Out of pocket costs currently incurred by consumers in rectifying defective and/or incomplete building work.
21. Costs incurred by both consumers and builders for VCAT disputes.
22. Costs incurred by consumers and builders relating to defective and/or incomplete work taken to court.
23. Any costs and benefits to consumers and builders from covering for structural damage and waterproofing for six years from the date of contract signing.
24. Any additional benefits expected to be gained from the FHWS that have not been considered in the RIS.

### **General questions**

25. Relevant data sources that may be used in the evaluation of the proposed Regulations.



## 1. Background

This chapter outlines the purpose of this Regulatory Impact Statement (RIS) and important contextual information.

### 1.1. Introduction and purpose of this RIS

The building sector in Victoria is subject to a detailed legislative and regulatory framework that promotes the safety and quality of building activities and protects consumer rights. The legislative framework underpinning the Victorian building sector is detailed in the *Building Act 1993 (the Building Act)* and Building Regulations 2018. Appendix B: Legislative and regulatory framework However, recent high-profile failures indicated that the building regulatory framework was inadequate and required reform, a conclusion supported by various reports to the Government and inquiries. Appendix A explores these reports and inquiries in further detail. The Victorian Government has committed to transforming Victoria's building system. The reforms will be delivered in two stages. Initial reforms will focus on immediate consumer protection reforms and frameworks. Later reforms will extend those consumer protections across the lifecycle of building work by increasing accountability of builders and developers.

The first in a series of reforms was delivered with the *Building Legislation Amendment (Buyer Protections) Act 2025 (the Buyer Protections Act)*. The Buyer Protections Act primarily focuses on improving the effectiveness of the regulator by integrating functions and strengthening the regulator's powers, improving consumer protection against financial distress because of defective building work and providing a clear pathway for consumers to seek remediation.<sup>28</sup> The Buyer Protections Act was shortly followed by the passage of the *Domestic Building Contracts Amendment Act 1995 (DBCAs)*, which introduced various changes to domestic building contracts and further strengthened the integration of domestic building functions by transferring the responsibilities of the Director of Consumers Affairs under that Act to the Building and Plumbing Commission (BPC). Further reforms are expected to follow in 2026.

The Buyer Protections Act introduced an integrated building industry regulator model to improve consumer protection and streamline regulatory arrangements. The integrated model joined various domestic building functions, such as dispute resolution (provided by the DBDRV) and DBI (provided by VMIA), with the functions of the former VBA under the *Building Act 1993*. These changes were aimed to eliminate the fragmented regulatory arrangements in the domestic building sector, improve the building regulator's effectiveness and oversight of the sector and end the frustration and confusion caused to consumers who are often passed around agencies before building work issues are resolved.

On 1 July 2025, these functions were combined with the VBA to establish the BPC. Since 1 July, the BPC has operated as a one-stop-shop regulator empowered to resolve consumer complaints about builders, the quality or compliance of building work, insurance claims and domestic building work disputes. Other reforms to the Victorian building system currently underway are outlined in Appendix C.

The Buyer Protections Act established the legislative framework for the introduction of:

- **A developer bond scheme (DBS):** new financial protections in the form of a security that consumers may draw upon to rectify reportable defective building work in residential apartment buildings four storeys and above.
- **A first-resort home warranty scheme (FHWS):** a new warranty scheme available for buildings three storeys and below on a "first-resort" basis, transitioning Victoria away from a "last-resort" DBI approach where

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<sup>28</sup> Victorian Government (2024), New Building Watchdog with Teeth to Protect Victorians. < <https://www.premier.vic.gov.au/new-building-watchdog-teeth-protect-victorians> >



claims for defective and incomplete work can only be made when the builder dies, becomes insolvent, or disappears.

- **Rectification orders (ROs)** as an enforcement tool for the BPC to require the builder, developer or other party responsible for carrying out the building work to fix any defective, non-compliant or incomplete building work.

While the Buyer Protections Act provides the foundational framework for these schemes, regulations are necessary to enliven the scheme or define the operational details. For the DBS and FHWS, the proposed Regulations are essential to enable the schemes' functionality. In contrast, the proposed Regulations for ROs are primarily procedural in nature and relate to small aspects of legislative framework.

This Regulatory Impact Statement (RIS) assesses the potential impacts on the Victorian building industry and the Victorian community of the proposed regulations. Deloitte Access Economics assisted in the preparation of this document. These proposed regulations support the Buyer Protections Act to enable the introduction and successful implementation of the DBS, the FHWS, and ROs.

The Victorian Guide to Regulation requires that a RIS identify and evaluate a range of feasible regulatory and non-regulatory options to address the problem.<sup>29</sup> Each option should be assessed in terms of its expected costs and benefits, relative to the base case, drawing on quantitative and qualitative evidence where appropriate. Analysis should also be proportionate to the significance of the problem and the impacts of the proposed options.

This RIS considers a range of proposed Regulations that support the introduction of legislation that provides additional protections for Victorian home buyers. As such, this RIS provides a proportionate and tailored assessment of the potential impacts on affected stakeholders, based on the scope and significance of options as well as the availability of data. In doing so, the RIS transparently identifies areas of uncertainty and seeks further input from stakeholders to inform the final decision-making process.

While a range of stakeholders were engaged and consulted by DTP for this RIS, stakeholder input was largely focused on the operational aspects of the reforms. Direct estimates of the costs and benefits were not available. However, stakeholders noted that the impacts could vary according to project circumstances. Estimating the potential costs and benefits of the proposed reforms to the building sector and consumers is therefore subject to a degree of uncertainty, which limits the extent to which aggregate impacts can be precisely quantified.

## 1.2. The reform areas

The reforms outlined above were established through legislation. The Buyer Protections Act sets out the aspects of the schemes that may require regulations to be prescribed, such as details, timeframes, procedural matters, and calculation methods for certain features for the system to operate well (for example the calculation of the cost of building works).

While a RIS is only required to assess the impacts of requirements prescribed in regulations and does not typically assess the impacts of the overarching legislation under which the regulations are made, the relevant sections of the Buyer Protections Act and the requirements it creates are included here for context.

### 1.2.1. Developer bond scheme (DBS)

Part 6 of the Buyer Protections Act outlines the DBS. The lack of insurance for residential apartment buildings four storeys and above presented a major gap in the current consumer protection framework for apartment

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<sup>29</sup> Better Regulation Victoria (2024), Victorian Guide to Regulation: A handbook for policy makers.  
<<https://www.vic.gov.au/sites/default/files/2025-04/2024-Victorian-Guide-to-Regulation.pdf>>



owners. The DBS closes that gap and strengthens protections for consumers by providing them with a more accessible pathway to having defective building work rectified in a timely manner.

The DBS also aims to strengthen construction practices within the apartment sector. The DBS acts as a financial incentive for developers to ensure that their projects comply with building standards and are free of defects.

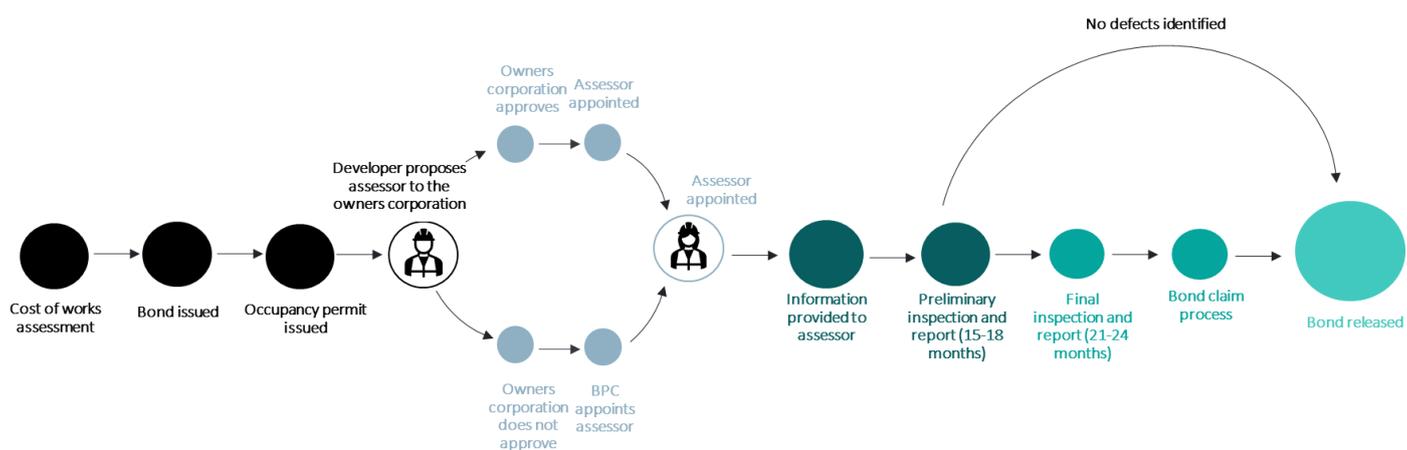
Under the DBS, developers will be required to lodge a two per cent bond with the BPC prior to applying for an occupancy permit. The bond amount will be calculated based on the total cost of building work and will be used to rectify defects identified through a two-stage reporting process. This bond acts as a financial safeguard for consumers to address potential defects identified post-construction.

The bond will be held for a period to be determined in regulations and may be claimed upon by the building's OC to rectify defects identified through a final inspection and report by an appointed building assessor. If no defects are identified, the full bond amount will be returned to the developer.

The building assessor role is a new statutory role introduced to carry out preliminary and final inspections and prepare reports identifying reportable defective work. Under the DBS, developers must nominate a qualified person as the building assessor for approval by the OC at its first meeting. In some instances, the BPC may appoint a building assessor. The building assessor must hold a prescribed qualification under new section 137ZS of the Building Act<sup>30</sup> and carry out a preliminary inspection and report of the building 15-18 months after the occupancy permit is issued. Copies of the report identifying defective work to be rectified must be shared with the developer, OC, builder and BPC. Developers are obligated to rectify the defects identified in the preliminary report.

The building assessor will be required to carry out a final inspection and report 21-24 months after the occupancy permit is issued.<sup>31</sup> If defects identified in the preliminary report remain unrectified, the OC may make a claim to the BPC for the release of the bond amount required to pay for the rectifications of outstanding defective work. Building assessors, appointed by either the OC or by the BPC, play a critical role in identifying and documenting building defects. Further, the warranty scheme intends to offer enhanced consumer protection measures by mandating developers to fix faults within specified timeframes. The process is displayed below in Figure 1.1.

Figure 1.1: The developer bond scheme and process



<sup>30</sup> This section will be inserted into the Building Act through an amendment to the Building Act introduced in the Buyer Protections Act

<sup>31</sup> If defects become apparent after this time, then a rectification order can be issued to compel building practitioners or developers to rectify defective or incomplete work.



Source: The Department of Transport and Planning

While the Buyer Protections Act details specific aspects of the warranty scheme, there are several areas where the proposed Regulations will be used to prescribe important operational details. The key areas for consideration within this RIS include (but are not limited to):

- **Method of determining the total building cost:** to ensure clear and consistent calculation of the total building cost across industry.
- **The definitions of reportable defective work:** to minimise confusion for both industry and consumers regarding what is and is not a reportable defect. This will clarify what the developer bond can be used to rectify.
- **Required qualifications for building assessors:** to ensure that the assessor is appropriately skilled for the task, and that inspections are conducted consistently.
- **Types of developments exempt from the DBS:** to ensure that the DBS applies to apartment building developments appropriately, for example, the Strata Building Bond and Inspections scheme in New South Wales exempts build-to-rent developments from requiring lodgement of the building bond.
- **Transition period for commencement of the DBS:** to provide a timeframe for developers and other industry members to prepare for the provision of a 2 per cent bond and other requirements under the DBS.

### 1.2.2. First-resort home warranty scheme (FHWS)

The existing scheme for DBI operates on a 'last-resort' model. This means that a claim for defective, incomplete, or non-compliant building work can only be made when the builder dies, becomes insolvent, or disappears. The 'last-resort' nature and limited circumstances where DBI may be accessed, has resulted in consumer criticism for being difficult to access and therefore failing to provide adequate protection to consumers.<sup>32</sup>

The Victorian Government committed funding within the 2024-25 State Budget to fixing DBI by increasing access for consumers.<sup>33</sup> To do so, the Victorian Government is reforming the DBI scheme by introducing a FHWS warranty, similar to the Queensland Home Warranty Scheme (QHWS).

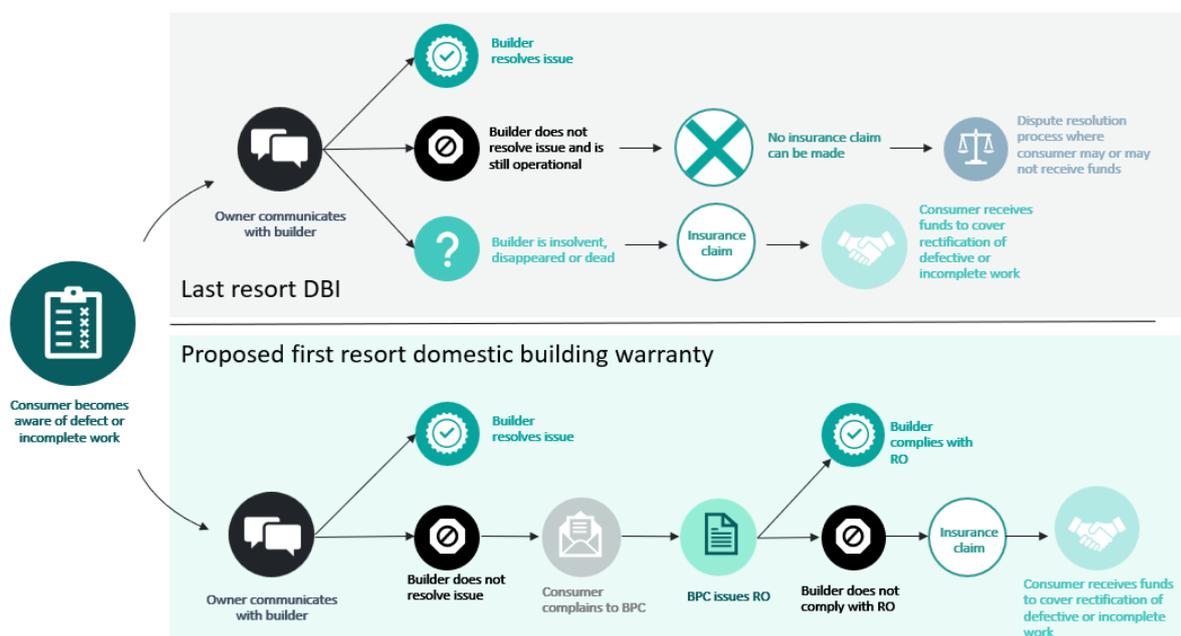
The first-resort warranty provides protection for homeowners of domestic buildings three storeys or under (including the third storey). The primary purpose of this insurance framework is to offer a mechanism through which homeowners can lodge claims related to defective, non-compliant or incomplete domestic building work and the recovery of lost deposits. Consumers can make a claim under the FHWS even if the builder is still trading. By addressing these issues, the FHWS is designed to mitigate financial risks associated with defective, non-compliant and incomplete domestic building work for homeowners. Figure 1.2 compares the process between the current DBI scheme and the proposed FHWS.

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<sup>32</sup> Victorian Auditor-General Office, Domestic Building Insurance review, (May 2025) <[https://www.audit.vic.gov.au/sites/default/files/2025-05/20250514\\_Domestic-Building-Insurance\\_0.pdf](https://www.audit.vic.gov.au/sites/default/files/2025-05/20250514_Domestic-Building-Insurance_0.pdf)>

<sup>33</sup> Premier of Victoria (2024), New Building Watchdog with Teeth to Protect Victorians. <<https://www.premier.vic.gov.au/new-building-watchdog-teeth-protect-victorians>>

Figure 1.2: The processes of the last resort DBI scheme and the first resort domestic building warranty scheme



Source: The Department of Transport and Planning

Claims under the FHWS will be managed by the BPC. Consumers will be able to make a claim without needing to undergo a formal dispute resolution process (either at the former DBDRV, at VCAT, or through the courts), but will be expected to provide the builder with a reasonable opportunity through a notification to rectify the defective work. If the builder refuses to rectify the defect, the consumer can approach the BPC for help. The BPC will triage the claim to determine whether the domestic building work issue is covered by the warranty. If it is covered, in most cases the BPC will arrange an inspection to determine whether defective building work has been carried out. If the BPC finds the work is defective, in most cases it will issue the builder with a rectification order to fix the defect.<sup>34</sup> It is only if the builder does not comply with the rectification order that an insurance response is triggered, and the claim accepted.

For matters not covered by the warranty, the BPC will be able to triage the issue to a more suitable resolution pathway. This includes dispute resolution (such as DBDRV), practitioner discipline or the use of the RO, among other actions available to the BPC. This means homeowners will still be able to have their matter referred to a suitable resolution pathway within BPC. This benefit of integration enables a straightforward process for addressing building work issues, either through the first-resort warranty or other BPC functions, which will save consumers time and money pursuing builders for problems or having to bearing the cost of rectifying the work themselves

Additionally, the FHWS enables the introduction of deemed cover. This means insurable domestic building contracts are covered by the warranty even if the builder has not paid the premium. As a result, consumers do not have to rely on their builder taking out a DBI policy to be covered, instead they are covered automatically.

<sup>34</sup> There may be circumstances when the BPC identifies defective domestic building work and decides not to issue the builder with a rectification order but still proceed to an insurance claim. An example is if the defect resulted from the builder carrying out the work in accordance with plans and specifications prepared by a qualified professional (such as an engineer or architect) not engaged by the builder that turned out to be defective.



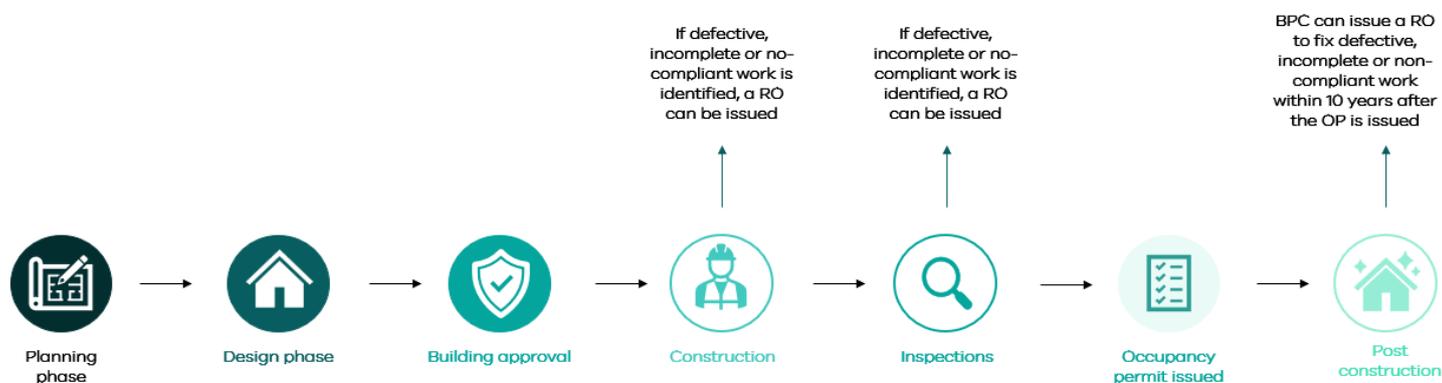
Within the home warranty scheme, the proposed Regulations will prescribe the detailed terms of insurance cover including types of available assistance, maximum amounts of cover, time periods of cover, exclusions and the processes involved in making a claim.

### 1.2.3. Rectification orders

Rectification orders (ROs) will improve the safety and compliance of building projects. The mechanism will provide a structured means for the BPC to intervene when building work fails to meet relevant standards, thereby safeguarding consumer interests. Figure 1.3 depicts how ROs would be integrated in the building process and can be used for 10 years after the issuing of an occupancy permit. By compelling builders and developers to address incomplete, non-compliant, or defective work, ROs ensure that consumers receive the quality of construction they are entitled to under contractual agreements and legislative requirements. The RO aims to protect consumers from potential hazards associated with substandard construction and increase public confidence in the building industry. Additionally, the administration of ROs by the BPC will contribute to industry compliance with relevant laws, building standards and reduce disputes. ROs will be integrated across the Victorian building sector and become a tool for the BPC regardless of the scheme the building work is subject to.

ROs can be issued during the construction phase and up to 10 years post-completion. ROs prioritise the rectification of building defects quickly, enabling consumers to move into their homes faster and to prevent defects becoming worse before they are rectified. Consumers benefit from this oversight as it reduces the likelihood of encountering future issues that could lead to costly repairs or renovations. Additionally, the legal obligation for those who carried out the work, builders and developers to comply with ROs within designated timeframes should ensure timely action, and minimal disruption and inconvenience to consumers.

Figure 1.3: Overview of the building process and where in that process ROs can be issued



Source: The Department of Transport and Planning

Further, the RO framework incorporates fairness considerations, balancing the enforcement of high standards with equitable treatment of building practitioners and developers.

Largely, the framework for ROs is detailed in the Buyer Protections Act. The prescription of regulations is important in establishing transparent procedures for publishing ROs and ensuring access to relevant information, thereby increasing predictability and understanding for all stakeholders involved. For consumers, this can provide clarity on the rectification order process and ensure relevant information (such as if a building practitioner has an RO issued to them) is accessible to them. This enables both industry and consumers to make informed decisions when choosing a building practitioner or developer.



### 1.3. The RIS Process

This RIS has been prepared in accordance with the *Victorian Guide to Regulation*, which provides a best practice approach to analysing any proposed regulatory intervention.<sup>35</sup> This RIS estimates the impact of the proposed Regulations on Victorian businesses and the community. The key purpose of this RIS is to assess the impact of introducing regulations to guide the requirements of the Buyer Protections Act, particularly in relation to the DBS, FHWS, and ROs.

Key steps in the process to introduce the proposed Regulations are:

- Preparation of the RIS (this document).
- Independent assessment by Better Regulation Victoria (BRV).
- Public comment on the proposed Regulations.
- Reviewing responses from public consultation prior to introducing the proposed Regulations.

#### **Identification of the problem and objectives of the proposed Regulations.**

This chapter considers the nature and extent of the problem that the proposed Regulations aim to address, including the:

- 1) Need for government intervention.
- 2) Risks of non-intervention.
- 3) Objectives of such intervention.

#### **Identification of options to achieve the intended objectives of the proposed Regulations**

DTP has identified options which aim to achieve the intended objectives of the proposed intervention. The development of these options was informed by stakeholder consultation, jurisdictional analysis and review of relevant literature. Preliminary analysis of identified options was undertaken prior to the development of this RIS to provide a technical assessment of the proposed options.

#### **Assessment of the costs and benefits**

Consistent with the requirements of the *Victorian Guide to Regulation*, an assessment of the costs and benefits of the proposed changes, relative to a reference case (the Base Case) was undertaken. The analysis included the quantification, where possible, of costs and benefits to industry, Government, and the Victorian community.

#### **Summary of preferred options and total impact**

This chapter brings together the preferred options for Regulations in the DBS, the FHWS and ROs.

#### **Implementation and evaluation**

This chapter describes the arrangements for the implementation and evaluation of the preferred option.

#### **Public comment**

The proposed Regulations and this RIS will be released via Engage Victoria for a period of 6 weeks. This will provide ample time for building practitioners, industry bodies, other interested parties and members of the public to consider and provide feedback on the proposed Regulations and RIS.

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<sup>35</sup> Better Regulation Victoria (2024), *Victorian Guide to Regulation: A handbook for policy makers in Victoria*.  
<<https://www.vic.gov.au/sites/default/files/2025-04/2024-Victorian-Guide-to-Regulation.pdf>>



## **1.4. Structure of this RIS**

The structure of the remainder of the report is as follows:

- Chapter 2: The problem and objectives
- Chapter 3: Approach to analysis
- Chapter 4: DBS: Reportable defective building work
- Chapter 5: DBS: Qualifications for building assessors
- Chapter 6: DBS: Other amendments
- Chapter 7: Impact analysis of the proposed DBS Regulations
- Chapter 8: FHWS: Options and impact analysis
- Chapter 9: Rectification orders: Options and impact analysis
- Chapter 10: Competition and small business impacts
- Chapter 11: Implementation and evaluation



## 2. The problem and objectives

This chapter outlines the nature and extent of regulatory and market failure within Victoria's building industry, establishing a need for government intervention.

Recent reports and inquiries (see Appendix A Appendix A: Recent inquiries and other reforms in the Victorian building sector) have identified ongoing issues within the Victorian building system and its corresponding regulatory framework. Problems have been identified regarding inadequate oversight over building work or accessible and effective pathways for rectifying building defects. This has led to low quality and non-compliant building work with poor outcomes for consumers, who are burdened with costly and sometimes lengthy dispute resolution and rectification processes.

Victoria has experienced an increase in the prevalence of building defects and non-compliant building work. The VBA's Proactive Inspection Program identified compliance risk (i.e., the proportion of inspections with non-compliant works) at 31 per cent in the first quarter of 2020,<sup>36</sup> which has since risen to 39 per cent in the fourth quarter of 2022-23.<sup>37</sup> Further, past research has found evidence of unacceptably high levels of non-compliance with the National Construction Code (NCC) and an annual estimated cost of \$675 million for defect rectification in Victoria.<sup>38</sup> The average cost of defect rectification in Australia was estimated to be \$4,366 per defect for detached houses and \$12,238 per defect for apartments.<sup>39</sup> More recently, the collapse of several high-volume builders, including Porter Davis Homes and Langford Jones, has further impacted thousands of homeowners across the state. These issues have contributed to a decline in consumer confidence and have exposed building occupants to safety risks, unexpected rectification costs, financial loss and an increased reliance on Government support.

### 2.1. Market failure in the building industry: Insufficient private incentives to comply with building standards

Unintended, harmful consequences in the building industry can occur when commercial incentives (such as time and cost savings) to avoid compliance with industry standards result in construction activity that poses risks and potential harms (such as financial costs or risk to safety) to third parties and the broader Victorian community. This can result in non-compliance by building practitioners and the transfer of costs and other burdens onto others such as the initial owner or subsequent purchaser of a building. Those who own or live and work in lower quality or defective buildings are accepting a higher level of risk (i.e., both risks to physical safety, but also financial risks of lost value or rectification costs) and lower living standards without being aware of it upon taking ownership of the building. Builders generally have a better understanding of construction quality and potential defects than consumers. It is often difficult for prospective buyers to identify defects before purchasing or occupying a property, as many issues may be hidden or only manifest over time. This results in information asymmetry where one party (the builder) in a transaction possesses more or better information than the other (the building owner), potentially leading to poorer outcomes.

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<sup>36</sup> Victorian Building Authority, Proactive Inspections Program Activity January to March 2020. <[https://www.vba.vic.gov.au/\\_\\_data/assets/pdf\\_file/0016/116350/Proactive-Inspections-Program-Activity-Report-Q3.pdf](https://www.vba.vic.gov.au/__data/assets/pdf_file/0016/116350/Proactive-Inspections-Program-Activity-Report-Q3.pdf)>

<sup>37</sup> Victorian Building Authority, Proactive Inspections Program Activity Report Financial year 2022-23 Q4. <[https://www.vba.vic.gov.au/\\_\\_data/assets/pdf\\_file/0008/172349/VBA-PIP-Report-Q4-22-23.pdf](https://www.vba.vic.gov.au/__data/assets/pdf_file/0008/172349/VBA-PIP-Report-Q4-22-23.pdf)>

<sup>38</sup> The CIE (2021), Building Confidence Report: A case for intervention <<https://www.abcb.gov.au/sites/default/files/resources/2022/Building-confidence-report-case-intervention.pdf>>

<sup>39</sup> Ibid.



The information asymmetry means that buyers may unintentionally acquire properties with defects which could be expensive to rectify and could reduce confidence in the building sector.

Further, the complexity of modern construction work means that information asymmetry can also operate within the building industry itself. In some cases, even builders may not be able to readily determine whether certain practices or product choices will lead to defects, with issues only becoming apparent once the defect manifests. This was highlighted in consultation with surveyors and builders.

Higher levels of demand from both Government and private sectors further amplify this aspect of the problem. Consumer demand for multi-use, multi-storey developments can create incentives for practitioners to prioritise speed of delivery over thorough quality assurance. In the short term, and in the absence of sufficient oversight and enforcement during construction, cutting corners may lower construction costs and accelerate delivery, enabling builders to collect revenue sooner and take on additional projects. Some defects may not become apparent until years after completion, at which point builders are no longer liable for rectification. In such cases, costs are frequently borne by homeowners. However, over the longer term, these practices can create reputational risks for builders, increase the likelihood of costly disputes, and undermine broader confidence in the quality of building work.

### **2.1.1. Prevalence of building defects in Victoria**

Defective and non-compliant work in the building industry have been on the rise. This is creating greater cost and uncertainty risks for consumers. The Centre for International Economics estimates that Victoria has among the highest rates of defective building work, at 1.04 defects per dwelling, compared to a national average of 0.95. Similarly, for apartments, the rate of defects is the highest compared to all other states, at 2.13 per apartment built, compared to a national average of 1.62.<sup>40</sup>

Further, studies have identified a notable increase in the number of defects in residential building construction over time. One study found that between 2013 and 2018,<sup>41,42</sup> the number of defects in five major Victorian suburbs increased in line with the increase in construction activity over this period.

There is no single reason why this rise in defects is being observed. However, the Building Confidence Report found that poor training has led to a lack of competence and understanding of building regulations amongst the industry.<sup>43</sup> In addition, accountability has been undermined by inadequate documentation practices across the industry and insufficient oversight of decision-making by regulators, which can compromise safety.<sup>44</sup> Overall, these diverse compliance and enforcement issues stem from inadequate oversight and a regulatory landscape that does not ensure accountability. Not every building project encounters non-compliant work issues; however, an unacceptably large number of projects are affected by defective work and can lead to serious consequences for consumers, including safety, financial and emotional impacts.

The BPC's proactive inspections program has revealed insights into the extent of non-compliance with building standards in Victoria. Over the financial year 2023-24, 43 per cent of inspections identified at least

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<sup>40</sup> *ibid*

<sup>41</sup> Architects Registration Board of Victoria (2024), Building defects, professional standards and compliance culture <<https://www.arbv.vic.gov.au/systemic-risks-australian-architecture-sector/building-defects-professional-standards-and>>

<sup>42</sup> Sandanayake, M., Yang, W., Chhibba, N., and Z. Vreclj (2021), Residential building defects investigation and mitigation – a comparative review in Victoria, Australia, for understanding the way forward, Engineering Construction and Architectural Management, DOI: 10.1108/ECAM-03-2021-0232

<sup>43</sup> Shergold, P. and Weir, B., Building Confidence: Improving the effectiveness of compliance and enforcement systems for the building and construction industry across Australia (February 2018)

<sup>44</sup> *ibid*.



one compliance risk. This highlights the high prevalence of non-compliance in Victoria and is similar to the high level (45 per cent) identified in the prior year.<sup>45</sup>

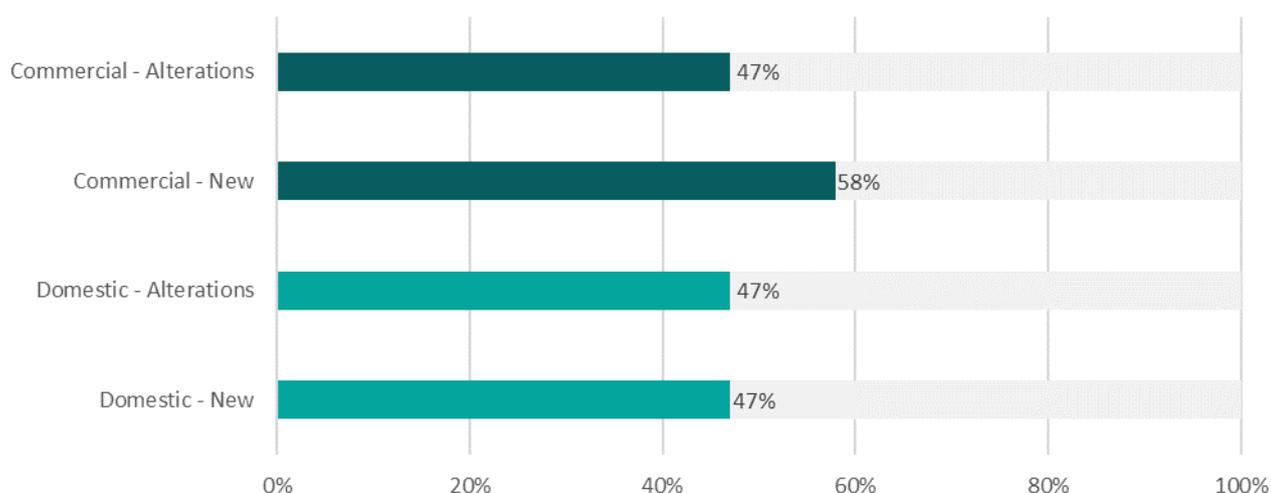
For domestic buildings, a similar prevalence of medium to high compliance risks was observed during inspections of new buildings and in buildings undergoing alterations (47 per cent for both) (Chart 2.1). The most common category of compliance risks found in domestic buildings was issues with timber framing (42 per cent of non-compliant issues). The category of compliance risks that have seen the greatest growth since 2022-23 consists of building wrap and sealing.

In contrast, non-compliant issues found in commercial buildings<sup>46</sup> were higher in new builds (58 per cent) compared to buildings undergoing alterations (47 per cent) (Chart

Chart 2.1: Percentage of medium to high compliance risks by type of building work (FY2023-24) 2.1). Areas of non-compliance in commercial buildings were more consistently distributed than seen in domestic building projects.

The most prevalent non-compliant categories included firefighting safety provisions (25 per cent), access for people with a disability (22 per cent), and protection of openings (20 per cent). While these categories were only slightly more prevalent than others, building defects related to fire safety provisions showed the greatest increase since 2022-23, rising from 20 per cent to 25 per cent.

Chart 2.1: Percentage of medium to high compliance risks by type of building work (FY2023-24)



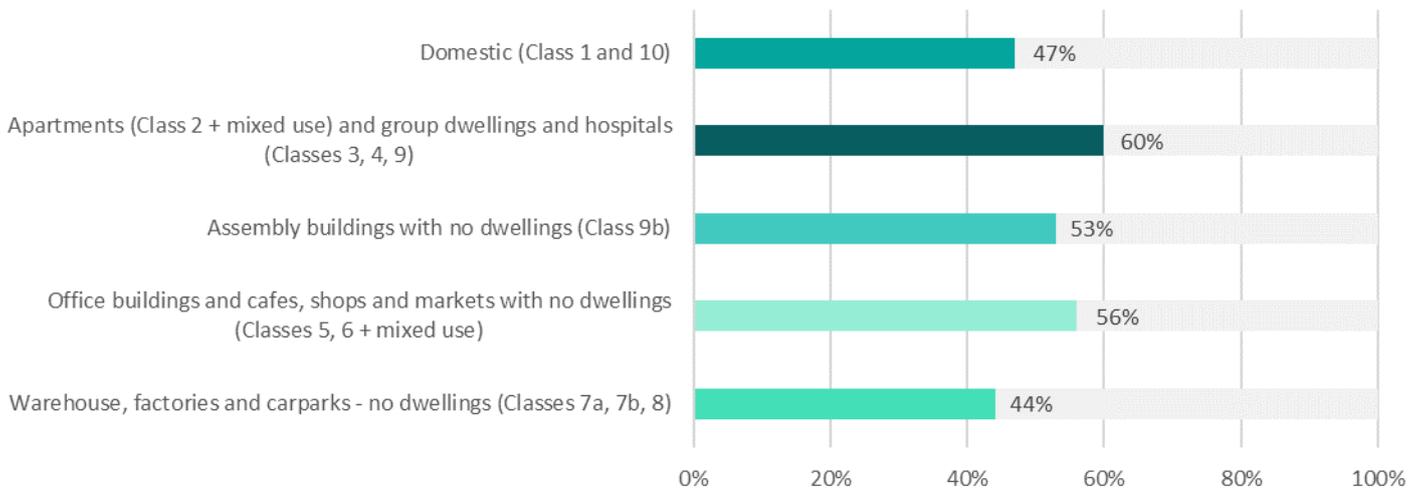
Source: Victorian Building Authority, Proactive Inspections Program: Activity Report (Financial Year 2023-24).<sup>47</sup>

Medium to high compliance risks were found at similar rates across all building classes. However, large multi-dwelling buildings (including apartments, and group dwellings) and hospitals had the highest compliance risk, at 60 per cent compared to all other building types (Chart 2.2). Chart 2.2: Percentage of medium to high compliance risks across class from all inspections (FY2023-24)

<sup>45</sup> Victorian Building Authority (2024) Proactive Inspections Report: Activity Report Financial Year 2023-24, <[https://www.vba.vic.gov.au/\\_\\_data/assets/pdf\\_file/0006/188097/VBA-Proactive-Inspections-Program-PIP-Activity-Report-FY-2023-24.pdf](https://www.vba.vic.gov.au/__data/assets/pdf_file/0006/188097/VBA-Proactive-Inspections-Program-PIP-Activity-Report-FY-2023-24.pdf)>

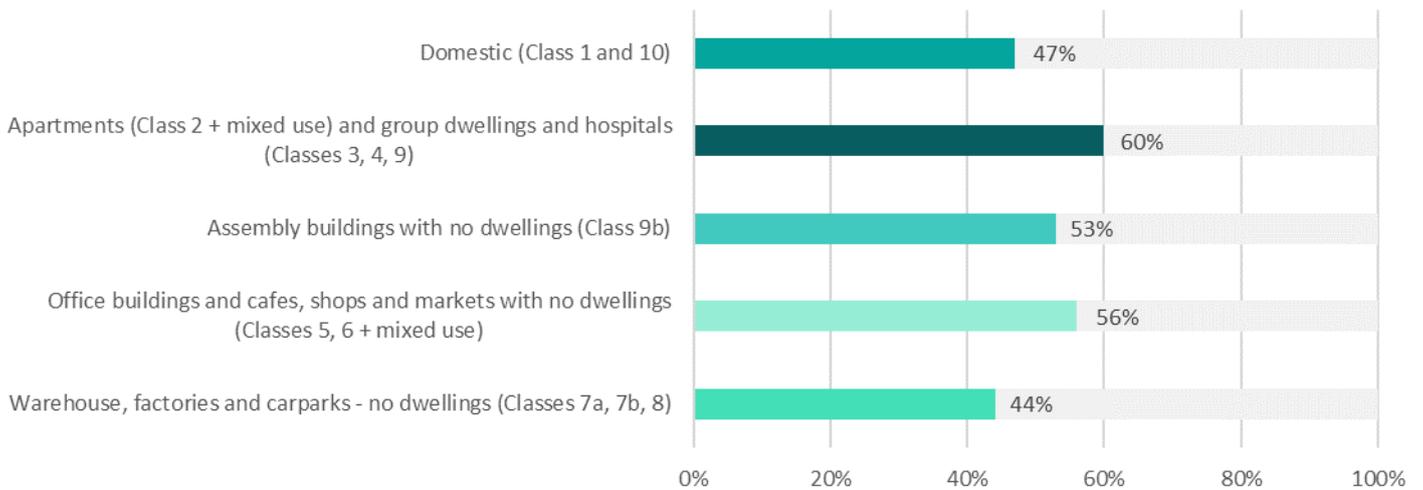
<sup>46</sup> For the purpose of the Proactive Inspection Program, class 2 buildings were considered commercial buildings.

<sup>47</sup> This dataset was only available for FY23-24 at the time of this report.



). This suggests that while non-compliance is most common in large scale domestic and non-domestic institutional buildings, particularly apartments and other large multi-dwelling buildings, it is a widespread issue that affects all building types across Victoria and is not isolated to one area.

Chart 2.22: Percentage of medium to high compliance risks across class from all inspections (FY2023-24)



Source: Victorian Building Authority, Proactive Inspections Program: Activity Report (Financial Year 2023-24).<sup>48</sup>

In 2021, Sandanayake et al. investigated the frequency, growth and type of building defects seen across Victoria.<sup>49</sup> Their study identified defective workmanship to be the most common cause of building defects in Victoria (representing 86 per cent of total defects). This indicates that workmanship, rather than design fault (which accounted for just 1 per cent of total defects), is the main cause of building defects. The study used data from VMIA and consisted of 3,048 claims and a total of 8,128 defects. These high levels of defective workmanship highlight that there was little incentive to avoid defective domestic building in the former regulatory landscape. While some defects are caused by design faults, overwhelmingly, defects have been

<sup>48</sup> This dataset was only available for FY23-24 at the time of this report.

<sup>49</sup> Sandanayake, M., Yang, W., Chhibba, N., and Z. Vreclj (2021), Residential building defects investigation and mitigation – a comparative review in Victoria, Australia, for understanding the way forward, Engineering Construction and Architectural Management, DOI: 10.1108/ECAM-03-2021-0232



found to be caused by poor workmanship. Since builders control the quality of workmanship, this would suggest that they should be held accountable.

Table 2.0-1: Matrix comparison of defects between root causes vs defects code in Victoria

Root cause / defect code	Structural Defect	Incomplete works	Non-structural defects	Total	Total %
Defective workmanship	2,508	2,661	1,835	<b>7,004</b>	<b>86%</b>
Design fault	16	21	11	<b>48</b>	<b>1%</b>
Other <sup>50</sup>	200	348	511	<b>1,059</b>	<b>13%</b>
Product failure <sup>51</sup>	1	2	4	<b>7</b>	<b>0%</b>
Product substitution <sup>52</sup>	3	7	-	<b>10</b>	<b>0%</b>
<b>Total</b>	<b>2,728</b>	<b>3,039</b>	<b>2,361</b>	<b>8,128</b>	<b>100%</b>
<b>Total %</b>	<b>34%</b>	<b>37%</b>	<b>29%</b>	<b>100%</b>	

Source: Sandanayake, M., Yang, W., Chhibba, N., and Z. Vreclj (2021)

## 2.2. Problems with the current regulatory system

### 2.2.1. A lack of regulatory oversight places excessive burden on consumers

The Expert Panel Review was appointed in 2019 to conduct a comprehensive review of Victoria's building legislation and regulatory system (for more detail see Appendix A). The Expert Panel found that the fragmented structure of the building regulatory system has historically failed to hold industry participants accountable for building quality and legal compliance.<sup>53</sup> This was largely due to poorly defined roles and responsibilities, including that of the regulator, building surveyors, designers and building practitioners.

The Building Confidence Report<sup>54</sup> and the Victorian Auditor General's Office's (VAGO) review into DBI also found that the building regulatory framework fell short in protecting consumers from the risks of non-compliant building work.<sup>55,56</sup> Despite the involvement of multiple agencies with oversight responsibilities (including the VBA, VMIA and DBDRV), these reviews found that the system lacked a unified, coordinated, and

<sup>50</sup> Other encompasses root causes of defects that are not due to defective workmanship, design fault, product failure, or product substitution.

<sup>51</sup> In the context of the building industry, "product failure" refers to the malfunction, breakdown, or inadequate performance of building materials, components, or systems used in construction.

<sup>52</sup> Refers to the practice of replacing a specified building material, component, or system with an alternative during planning, procurement, or construction. This can happen for various reasons—cost savings, availability issues, design changes, or supplier recommendations. Product substitution may involve switching to a different brand, grade, or type of material than originally specified in project documents or building contracts. For example, a builder might use a different insulation product due to supply delays or choose a locally available cladding material rather than the originally imported product.

<sup>53</sup> Building Reform Expert Panel, Stage one final report to Government. < <https://www.vic.gov.au/sites/default/files/2023-03/Expert-Panel%E2%80%99s-Comprehensive-Review-of-Victoria%E2%80%99s-Building-System-Stage-One-Report-to-Government.pdf> >

<sup>54</sup> The Building Ministers Forum published the Building Confidence Report in 2018 addressing the systemic issues in Australia's building and construction sector. The report focuses on regulation, compliance, safety, and oversight. For more information, please see Appendix A.

<sup>55</sup> Australian Department of Industry, Science and Resources (2018), Building confidence: Building Minister's Forum expert assessment. < <https://www.industry.gov.au/publications/building-confidence-building-ministers-forum-expert-assessment> >

<sup>56</sup> Victorian Auditor-General Office (2025), Domestic Building Insurance: Independent assurance report to Parliament 2024-25. < [https://www.audit.vic.gov.au/sites/default/files/2025-05/20250514\\_Domestic-Building-Insurance\\_0.pdf](https://www.audit.vic.gov.au/sites/default/files/2025-05/20250514_Domestic-Building-Insurance_0.pdf) >



strategic approach to monitoring and enforcing builder accountability.<sup>57, 58</sup> These issues have been the subject of recent legislative amendments through the Buyer Protections Act.

Historically, regulatory dispersion has contributed to slow and inconsistent responses to emerging risks.<sup>59</sup> As a result, builders and developers who fail to comply with or meet the relevant building standards have faced limited or delayed consequences. State bodies like the VBA and DBDRV have had limited powers to sanction or pursue non-compliant builders, placing the burden on consumers to initiate and pursue action. As a result, consumers have been left to navigate a complex web of agencies to seek a remedy, encountering long procedural delays and hurdles throughout the process.

Specifically, VAGO's review found that the mandatory conciliation process administered by DBDRV rarely resulted in enforceable outcomes and rarely led to regulatory consequences for builders.<sup>60</sup> While consumers were required to first attempt conciliation through DBDRV, the current legislative framework offered limited enforcement tools.<sup>61</sup>

Builders faced minimal incentive to participate constructively, as there were few penalties for delaying responses or ignoring directives.<sup>62</sup> Further, DTP understands that in some circumstances, builders were actively prolonging resolution, with the intent that consumers ultimately give up on dispute resolution processes. As such, this regulatory gap undermined the effectiveness of the dispute resolution process, forcing consumers to escalate to VCAT if conciliation failed.

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<sup>57</sup> Australian Department of Industry, Science and Resources (2018), Building confidence: Building Minister's Forum expert assessment.

<sup>58</sup> Victorian Auditor-General Office (2025), Domestic Building Insurance: : Independent assurance report to Parliament 2024-25.

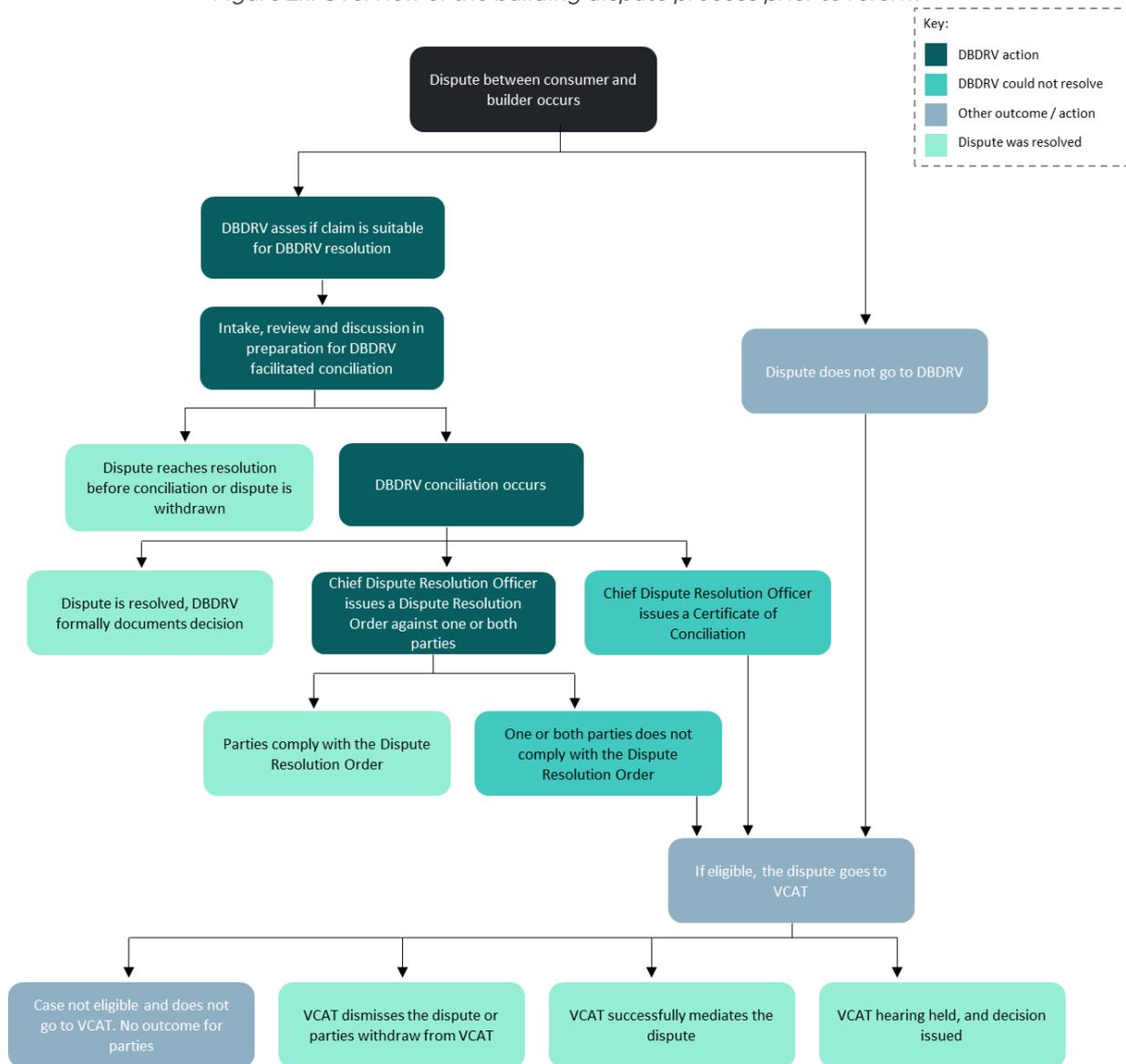
<sup>59</sup> Shergold, P. and Weir, B (2018), Building Confidence: Improving the effectiveness of compliance and enforcement systems for the building and construction industry across Australia. < [https://treasury.gov.au/sites/default/files/2025-07/building\\_ministers\\_forum\\_expert\\_assessment\\_-\\_building\\_confidence.pdf](https://treasury.gov.au/sites/default/files/2025-07/building_ministers_forum_expert_assessment_-_building_confidence.pdf)>

<sup>60</sup> Victorian Auditor General (2023), Domestic Building Oversight Part 2: Dispute Resolution < <https://www.audit.vic.gov.au/report/domestic-building-oversight-part-2-dispute-resolution?section=>>

<sup>61</sup> *ibid*

<sup>62</sup> *ibid*

Figure 2.1: Overview of the building dispute process prior to reform



Source: Victorian Auditor General's Office (VAGO) using DBDRV and VCAT data

VCAT wait times for building and construction matters average around 52 weeks.<sup>63</sup> During these lengthy wait times, affected homeowners are subjected to unresolved, incomplete building work and defects that are unsafe. During this period, consumers may incur significant legal fees and costs for alternative accommodation while still dealing with unsafe or incomplete homes. This creates an environment of high financial and emotional stress for consumers. Following VCAT decisions, compliance issues can persist.

Consumers who obtain a Dispute Resolution Order (DRO) (i.e., an order that binds one or both parties to perform actions to resolve a dispute) may still need to take further enforcement steps at VCAT if the builder does not comply with the DRO, potentially leading to a DBI claim if they are eligible. In the meantime, unresolved defects pose heightened risks of further damage, safety issues or financial loss, increasing rectification costs. Consequently, without effective enforcement powers or timely sanction mechanisms to

<sup>63</sup> Victorian Civil and Administrative Tribunal, How long a VCAT case takes? <<https://www.vcat.vic.gov.au/the-vcat-process/when-vcat-starts-a-case/how-long-vcat-case-takes>>



compel builders, the dispute resolution process remains vulnerable to wait times, parties behaving in bad faith to delay to the resolution of a dispute and non-compliance, leaving consumers exposed to prolonged stress and escalating costs.

The old system lacked the necessary tools for early intervention to hold non-compliance to account. The cumulative effect of these regulatory gaps and complexities was a system in which consumers carry the financial and practical consequences of regulatory failure.<sup>64</sup> These consequences are explained further in section 2.3.

### **2.2.2. Last-resort DBI provides inadequate consumer protections**

As discussed in section 1.2.2, Victoria previously had a last-resort DBI model. DBI acted as a last-resort protection for consumers when there were no other available pathways to rectify defective or incomplete work. This model has been criticised by consumer advocates and industry for being limited in its scope and putting consumers at a disadvantage.<sup>65</sup> Under the last-resort model, a consumer can only access insurance if the builder they engaged has died, become insolvent, or disappeared.<sup>66</sup> Under the DBI scheme, consumers who have an issue with domestic building work, and the builder is still trading, cannot make a claim on the insurance. This can leave consumers unsupported and financially strained while they attempt to pursue the builder through dispute resolution, tribunal or court, or attempt to remedy the defective domestic building work. Further, DBI does not cover residential apartment buildings that are four storeys or over.

This means that consumers in residential apartment buildings of four or more storeys have no access to DBI.

Last resort DBI also presents challenges from a regulatory perspective through requiring extensive oversight and enforcement to ensure builders maintain solvency and adhere to operational standards. As such, last resort DBI can strain resources and complicate regulatory processes. This largely stems from instances of non-compliance when builders fail to take out policies which then places greater burden on regulators. For instance, the collapse of Porter Davis Homes uncovered that the builder was accepting deposits without taking out DBI, which led to customers losing their deposits.<sup>67</sup> Porter Davis' collapse increased pressure on VMIA resources requiring the appointment of additional assessors to handle the increased claim volumes and contributed to the increase in DBI premiums.<sup>68</sup>

Additionally, last-resort DBI has been criticised for being reactive. It can inadvertently discourage proactive risk management strategies because it is reacting to specific trigger events, rather than preventing those events or other non-compliant behaviours from occurring in the first place.<sup>69</sup> This led to a regulatory gap which failed to proactively encourage industry compliance and accountability.

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<sup>64</sup> Shergold, P. and Weir, B. (2018), Building Confidence: Improving the effectiveness of compliance and enforcement systems for the building and construction industry across Australia. < [https://treasury.gov.au/sites/default/files/2025-07/building\\_ministers\\_forum\\_expert\\_assessment\\_-\\_building\\_confidence.pdf](https://treasury.gov.au/sites/default/files/2025-07/building_ministers_forum_expert_assessment_-_building_confidence.pdf)>

<sup>65</sup> Insurance News (2024), Stronger foundations? Victoria acts on builder's warranty.< <https://www.insurancenews.com.au/analysis/stronger-foundations-victoria-acts-on-builders-warranty>>

<sup>66</sup> Victorian Auditor-General's Office (2025), Domestic Building Insurance: Independent assurance report to Parliament 2024-25. < [https://www.audit.vic.gov.au/sites/default/files/2025-05/20250514\\_Domestic-Building-Insurance\\_0.pdf](https://www.audit.vic.gov.au/sites/default/files/2025-05/20250514_Domestic-Building-Insurance_0.pdf)>

<sup>67</sup> Victorian Building Authority (2023), Stronger powers proposed for the VBA to protect consumers. < <https://www.vba.vic.gov.au/news/news/2023/stronger-powers-proposed-for-the-vba-to-protect-consumers>>

<sup>68</sup> Victorian Auditor-General's Office (2025), Domestic Building Insurance: Independent assurance report to Parliament 2024-25. < [https://www.audit.vic.gov.au/sites/default/files/2025-05/20250514\\_Domestic-Building-Insurance\\_0.pdf](https://www.audit.vic.gov.au/sites/default/files/2025-05/20250514_Domestic-Building-Insurance_0.pdf)>

<sup>69</sup> Builders' warranty: a house of horrors, Insurance News (04 April 2016). <https://www.insurancenews.com.au/analysis/builders-warranty-a-house-of-horrors>



## 2.3. Consequences of regulatory failure for consumers

As described in section 2.2, the regulatory framework governing Victoria's building sector previously lacked sufficient mechanisms to ensure accountability for building defects or to provide timely and accessible pathways for rectification. As a result, consumers have borne the consequences of non-compliant and defective building work.

These consequences manifest in several ways, including financial loss, stress and uncertainty, with a growing lack of trust amongst consumers regarding the quality of new builds within the sector.<sup>70</sup>

### 2.3.1. Increased financial burden associated with rectification of defects

In Victoria, once an occupancy permit is issued, any subsequently identified building defect had previously become the financial responsibility of homeowners rather than builders. The transfer of rectification cost from developers and builders to consumers imposes substantial financial burdens on individuals who did not contribute to the construction deficiencies. Unresolved defects also impact the financial value of a home. In cases where a new building is affected by defects, the value of the home could fall to less than the cost of construction, leaving consumers with mortgage debts exceeding the value of the underlying asset. Sometimes consumers accept the loss in value because the cost of rectification is prohibitive, or the consumer decides against reengaging with the builder due to lost confidence.

The cost to rectify a single defect can vary depending on the type of defect and building class (see Appendix D for a description of the building classes). CIE estimates an average cost of approximately \$3,500 for detached houses (Class 1), \$2,800 for townhouses (Class 1), and \$9,400 for apartments (Class 2).<sup>71</sup> These costs can accumulate significantly, especially in multi-dwelling buildings where numerous defects may be present. For Class 2 buildings where defects are found in common property, research shows that the average cost of defect rectification for an OC is \$180,000 per building. This equates to between \$2,433 and \$8,213 per apartment owner in a building with defects.<sup>72</sup>

Delays in rectification and lengthy dispute resolution processes can compound financial losses. Engaging in dispute resolution often involves additional costs (i.e. legal fees and expert assessments) and can lead to significant delays in rectifying defects. During consultation consumer advocates asserted that existing processes have long disadvantaged consumers, with minimal pathways available to pursue rectification and reimbursement. Advocates further stated that while private advocacy services do exist, there can be barriers to access, a lack of awareness and limited availability to service the needs of consumers, especially in the context of growing levels of defective and non-compliant work. Industry representatives acknowledged this point but noted that current proceedings are already perceived as burdensome to builders and developers and expressed that increased regulation could further strain the industry.

### 2.3.2. Decrease in consumer confidence

Consumer confidence reflects the trust buyers have in the market or product. Low consumer confidence can reduce demand, which may have negative consequences for businesses and overall market activity. This is significant for the Victorian economy because the gross value added by the Victorian construction

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<sup>70</sup> Expert Panel (2023), Expert Panel's comprehensive review of Victoria's building system stage two report <<https://www.vic.gov.au/sites/default/files/2023-11/Expert-Panel%27s-Comprehensive-Review-of-Victoria%27s-Building-System-Stage-Two-Report-to-Government.pdf>>

<sup>71</sup> The CIE (2021), Building Confidence Report: A case for intervention <<https://www.abcb.gov.au/sites/default/files/resources/2022/Building-confidence-report-case-intervention.pdf>>

<sup>72</sup> Cladding Safety Victoria (2024), Non-cladding building defects: Research analysis no.2 <<https://www.vic.gov.au/sites/default/files/2025-02/Research-Analysis-Non-cladding-Building-Defects.pdf>>



industry to the Victorian economy is estimated to be \$43 billion in 2023-24.<sup>73</sup> The building sector also delivers outcomes that impact the daily lives of individuals and communities. Whether a consumer is a renter, a homeowner, or a landlord, the building industry fulfils an important role in the economic position and overall well-being of individuals. As a result, declining consumer confidence in the building sector has complex economic and social implications.

Consumer research data indicates that, after housing affordability, the biggest barriers to buying, building or renovating a property in Australia relate to concerns of building quality, builder solvency, defects and delays.<sup>74</sup> This is particularly concerning in the context of Victoria, which has one of the highest rates of building defects nationwide.<sup>75</sup>

In recent years, consumer confidence in Victoria's building and construction sector has declined, particularly in the apartment market.<sup>76</sup> Reasons for declining consumers' confidence are driven by persistent quality concerns, regulatory shortcomings, and a wave of high-profile builder collapses.

The Expert Panel Review found that consumers' trust in building professionals is decreasing. Consumers are concerned that builders are taking shortcuts, leaving consumers to remedy defective work themselves.<sup>77</sup> This is compounded by a lack of transparency in legal proceedings and the significant delays before resolution is reached. Consequently, consumers have a growing distrust of the arrangements available to resolve building disputes. CIE found that 21 per cent of homeowners waited between three to six months for completion of defect repairs, while 9 per cent waited for more than six months. Where defects pose a serious physical risk or stress for homeowners, such prolonged delays can degrade trust and leave consumers exposed and unsupported.<sup>78</sup> Ultimately, these experiences reinforce a broader perception that the building industry lacks effective safeguards to protect consumers and allow consumers to engage confidently.

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<sup>73</sup> Australian Bureau of Statistics (2024), Australian National Accounts: State Accounts (Table 3: Expenditure, Income and Industry Components of Gross State Product, Victoria, chain volume measures and current prices).  
<<https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-state-accounts/latest-release#methodology>>

<sup>74</sup> Equifax (2024), Construction demand grows, but lack of trust still impacts the sector, <<https://www.equifax.com.au/knowledge-hub/news-and-media/construction-demand-grows-lack-trust-still-impacts-sector>>

<sup>75</sup> The CIE (2021), Building Confidence Report: A case for intervention. <<https://www.abcb.gov.au/sites/default/files/resources/2022/Building-confidence-report-case-intervention.pdf>>

<sup>76</sup> Department of Transport and Planning (2025), Building Amendment (Building Manuals and Mandatory Inspections) Regulations 2025. <<https://www.vic.gov.au/sites/default/files/2025-04/Building-Amendment-2025-Regulatory-Impact-Statement.pdf>>

<sup>77</sup> Expert Panel (2023), Expert Panel's comprehensive review of Victoria's building system stage two report <<https://www.vic.gov.au/sites/default/files/2023-11/Expert-Panel%27s-Comprehensive-Review-of-Victoria%27s-Building-System-Stage-Two-Report-to-Government.pdf>>

<sup>78</sup> The CIE (2021), Building Confidence Report: A case for intervention <<https://www.abcb.gov.au/sites/default/files/resources/2022/Building-confidence-report-case-intervention.pdf>>



### **CASE STUDY: COLLAPSE OF PORTER DAVIS**

In March 2023, Australian volume builder Porter Davis collapsed, driven by rising input costs, labour shortages and supply chain delays. With its collapse, families across 1,700 homes were left with half-finished buildings and limited pathways to seek reparation. Despite many families paying an insurance premium with their deposit, the company did not take out compulsory DBI, leaving many consumers with little safety net. The lengthy process required to receive support and accountability for unfinished work not only meant a prolonged period of emotional stress for affected families but also mounting costs as delayed finishes caused additional damage to incomplete work, which would need to be later rectified.

The lack of support systems and accountability for the insolvency left consumers vulnerable, facing unclear processes for seeking assistance, high costs, and uncertainty regarding when or how their houses would be completed.

Insolvencies since the pandemic have eroded consumer trust and confidence in the building sector, with greater uncertainty surrounding the feasibility of housing construction and the likelihood of development completion.

Source: Hamilton-Smith, L. (2023), Porter Davis liquidation leaves families with half-finished homes, as ASIC data reveals scale of construction company collapses

### **2.3.3. Exposure to safety risks**

The increasing popularity of high-density multi-storey buildings has increased both the complexity and risk associated with building work. If this complexity and risk are not adequately addressed by the building regulatory system or the building industry independently, there is an increased chance that a low likelihood, high consequence risk event occurs. These events occur when a building experiences significant failure – for example structural failure or a failure in the essential safety systems. This can inflict severe physical and mental harm on building owners, managers and occupiers as well as the broader community.

The Victorian Cladding Taskforce found that there is also a high emotional cost to consumers associated with negative experiences with defective and low-quality buildings.

In Victoria, there have been numerous high-profile cases where significant building defects have led to financial or safety risks to consumers. For example, combustible cladding has been a major issue in the State and the cause of damaging apartment building fires.<sup>79</sup> Combustible cladding enabled the destructive spreading of fires at both the Lacrosse building in Melbourne<sup>80</sup> in 2014, and the Neo200 apartment complex on Spencer St in 2019.<sup>81</sup> As a result, both building fires placed the safety of residents at risk, and a multi-million-dollar cost was required to rectify the cause.

<sup>79</sup> Department of Environment, Land, Water and Planning (2019), Victorian Cladding Taskforce Final Report <<https://www.vic.gov.au/sites/default/files/2025-04/Victorian-Cladding-Taskforce-Report-from-the-Co-Chairs-July-2019.pdf>>

<sup>80</sup> ABC (2015), Overcrowding, substandard building contributed to \$2m Docklands apartment fire, investigation finds <<https://www.abc.net.au/news/2015-04-28/overcrowding-substandard-building-contributed-docklands-fire/6426588>>

<sup>81</sup> Australian Financial Review (2022), Insurer goes after builder LU Simon on another cladding tower. <<https://www.afr.com/property/commercial/insurer-goes-after-builder-lu-simon-on-another-cladding-building-20220818-p5bawr>>



### **CASE STUDY: SPENCER ST HIGH-RISE FIRE**

In 2019, a fire started on the 22<sup>nd</sup> floor balcony of the Neo200 tower on Spencer Street. This fire was caused by a discarded cigarette, however, the use of combustible cladding enabled the fire to spread quickly, climbing up the exterior of the building and reaching as high as the 27<sup>th</sup> floor.

While there were no serious injuries to residents, such a fire could have been a major safety risk for the residents of the building itself and neighbouring properties. In addition, the damaging and widespread nature of the fire meant that residents could not return to their homes for several days.

This event occurred as a result of the use of combustible cladding, which is non-compliant with building codes given the dangers associated with its use. Rectification of such defective building work is expensive, and the residents of the building faced a multi-million-dollar cost to remove combustible cladding from the building. However, residents of the building had few avenues for recourse from the builder to rectify the defective work.<sup>82</sup>

This example also demonstrates the lack of mandated insurance covering building work for residential apartment buildings of four storeys and above, limiting the options available for consumers. Other alternatives include legal dispute resolution processes. However, these tend to involve considerable additional costs for residents and are generally a slow, time-consuming, process.

Source: ABC (2019), Residents should be told if their building has flammable cladding, MFB says

## **2.4. The residual problem**

While the Buyer Protections Act establishes the overarching framework to introduce the new consumer protections, key operational details are left to regulations. Without these details, the legislation may not adequately address the consumers or achieve its intended outcomes. This RIS therefore focuses on the regulations required to ensure that the schemes as prescribed can function as intended.

### **2.4.1. DBS**

Until now, owners of apartments in residential apartment buildings four storeys and above had no insurance coverage and limited avenues to recover costs for defective building work. The Buyer Protections Act establishes a developer bond scheme to address this gap. However, key details such as what constitutes a reportable defect and the required qualifications for building assessors under the scheme, among others, are left to regulations. If regulations are not made, the scheme would function sub-optimally, with many legislative provisions being ineffective. This would have the effect of leaving apartment owners with a lack of clarity around the warranty scheme's mechanisms and effectiveness. The absence of clear operational rules would also weaken the warranty scheme's incentive effect for developers to comply with building standards.

### **2.4.2. FHWS**

Last-resort DBI has historically failed to provide adequate consumer protection, with limited eligibility and narrow claim circumstances leaving homeowners exposed to incomplete, non-compliant or defective building work. The Buyer Protections Act introduced the new FHWS scheme to address these gaps. However, the legislation alone does not specify essential operational details such as the terms of insurance coverage, the claimable amounts, timeframes and claims processes. Without regulations defining these elements, the FHWS scheme cannot operate effectively, and consumers will continue to face the risks of insufficient protection.

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<sup>82</sup> ABC (2019), Residents should be told if their building has flammable cladding, MFB says < <https://www.abc.net.au/news/2019-02-05/neo200-melbourne-cbd-apartment-tower-fire-spencer-street/10778926>>



### **2.4.3. ROs**

The Buyer Protections Act largely establishes the operational framework for ROs, providing the BPC with stronger enforcement powers to hold builders and developers accountable for incomplete, non-compliant and defective work. Only limited matters are deferred to regulations, primarily to provide clarity on procedural elements such as the information that must be included in orders as well as ensuring orders are recorded on the Register of Building Practitioners.

## **2.5. Objectives**

The FHWS, DBS, and ROs are all designed to better support consumers where building work is found to be defective.

The three key reforms considered in this RIS are intended to provide greater consumer protections, with new pathways for rectification that are neither lengthy nor expensive.

The objectives of these reforms are to:

- Increase consumer confidence in the building sector, reflected in stronger trust and more positive perceptions of new builds.
- Improve consumer access to insurance and other financial protections from incomplete, non-compliant or defective domestic building work.
- Deliver the rectification of incomplete, non-compliant or defective building work quickly without the need to rely on dispute resolution processes.
- Reduce the risks to safety generated by defective, non-compliant, or incomplete building work.
- Hold parties responsible for defective, non-compliant or incomplete work accountable.



### 3. Approach to analysis

This chapter describes the approach to analysing regulatory options for the newly introduced developer bonds, first-resort domestic building warranties, and rectification order schemes.

The Victorian Guide to Regulation requires that a RIS identify and evaluate a range of feasible regulatory and non-regulatory options to address the problem.<sup>83</sup> Each option should be assessed in terms of its expected costs and benefits, relative to the base case, drawing on quantitative and qualitative evidence where appropriate. Analysis should also be proportionate to the significance of the problem and the likely impacts of the proposed options.

This RIS considers a range of proposed Regulations that support the introduction of legislation that provides additional protections for Victorian home buyers. As such, this RIS provides a proportionate and tailored assessment of the potential impacts on affected stakeholders, based on the scope and significance of options as well as the availability of data. In doing so, the RIS transparently identifies areas of uncertainty and seeks further input from stakeholders to inform the final decision-making process.

#### 3.1. Addressing uncertainty in quantifying costs and benefits

##### 3.1.1. Limitations of the evidence base

Empirical research and stakeholder consultations were undertaken to gather insights on the costs and benefits of the proposed Regulations. The research analysis included a review of publicly available reports, recent inquiries into the Victorian building sector, annual reports of relevant agencies, and academic and industry literature. While this provided useful insights into current building practices, there are limitations in the available evidence base.

DTP also undertook stakeholder consultation sessions to inform the design of reform options. This included a series of workshops with the Building Special Advisory Panel (BSAP), public discussion papers group and one-on-one consultation with building practitioners. While stakeholders provided useful perspectives on implementation and practical issues to consider, they could not provide direct estimates of associated costs and benefits. Stakeholders also noted that there is likely to be significant variation in the responses of builders and consumers based on the variation in the circumstances that apply to each project.

Estimating the potential costs and benefits of the proposed reforms to the building sector is therefore subject to a degree of uncertainty. This level of uncertainty, which limits the extent to which aggregate impacts can be precisely quantified. The following section outlines the key areas of uncertainty considered in this RIS.

##### 3.1.2. Areas of uncertainty

Several factors limit the ability to provide definitive, quantified estimates of the expected impacts of the proposed reforms. Uncertainty arises across multiple dimensions, reflecting both the variability of building outcomes and the novel nature of some reform elements.

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<sup>83</sup> Better Regulation Victoria (2024), Victorian Guide to Regulation: A handbook for policy makers.  
<<https://www.vic.gov.au/sites/default/files/2025-04/2024-Victorian-Guide-to-Regulation.pdf>>



## **REQUEST FOR STAKEHOLDER INPUT**

DTP welcomes stakeholder feedback on both the following areas of uncertainty as well as examples and assumptions regarding impacts presented in this RIS. DTP expects that stakeholder feedback in response to this RIS, gathered through the public consultation process, will help refine its understanding of the feasible scale of impact of the matters being prescribed in regulation and will be useful in finalising the preferred option for implementation.

### **3.1.3. The true frequency and severity of building defects and non-compliance in Victoria is unknown**

It is challenging to determine how often defects will occur and whether they will be minor or more serious in nature. For example, some buildings may experience relatively contained issues that affect their appearance or minor functionality but do not compromise their overall safety or structural integrity. These may include, for example, thin cracks, improperly installed windows, or imperfections in finishes. Other buildings may be affected by more significant structural problems, or non-compliant fire safety measures or major waterproofing failures, which are expensive and technically complex to rectify.

Since not all defects are identified, and when they are, the available averages and historical data do not always capture their variation, it is difficult to predict with precision how frequently the protections introduced with the Buyer Protections Act will be utilised in practice. Understanding the impact of the proposed Regulations on the frequency of defects during implementation of the proposed reforms will also be complicated by the fact that if working as intended, the reforms should be reducing the number of defects that occur in the first instance but also picking up on defects which might otherwise have gone undetected (at least until later). This will make attribution of future changes in defect rates to the reforms challenging.

The Victorian building sector is diverse, and how stakeholders respond to enforcement measures will vary depending on the building's characteristics and associated risk profile, as well as the building practitioners or developers responsible for its construction.

Project size, complexity and building type (e.g., if the building is purely residential, mixed-use, or multi-owned) can each influence its level of risk, the associated effort required to comply with requirements of each scheme (e.g., allow for building assessor to undertake their inspections) as well as the cost to rectify any identified defects if required. For example, a large apartment complex with hundreds of units may require multiple inspections, coordination with numerous contractors, and substantial administrative effort to ensure compliance, whereas a smaller development may require far less time and fewer resources to manage the same requirements.

Further, the experience, resources, and capacity of building practitioners and developers can also shape their ability to comply. For example, larger developers may be able to absorb additional compliance costs more easily than smaller developers or practitioners who may face disproportionately high administrative burdens.

### **3.1.4. The cumulative system-wide effects of the reforms are difficult to isolate and predict**

While each reform area has specific, identifiable objectives and impacts, their combined effect across the building sector is hard to estimate with certainty. This is because the reforms may interact in ways that either amplify or offset each other. For example, the use of one mechanism may reduce the need for another. Here, a RO may be sufficient to ensure a defect is remedied, meaning the developer bond or insurance scheme is not accessed. In other cases, the measures may need to work together to ensure the defect is addressed. For example, if a RO is not fully complied with or is unable to be completed, any remaining costs would be covered by the FHWS.

The presence of these overlapping measures may also influence industry behaviour more broadly, encouraging building practitioners and developers to invest in higher build quality to avoid potential financial



penalties or reputational consequences. While this is the intent of the reforms, it creates challenges in separating the impact of individual reforms or quantifying their cumulative effect with certainty.

A further complexity is that the proposed Regulations are being introduced to support schemes that have already been legislated. In practice, it will be difficult to distinguish the incremental effect of the proposed Regulations from the broader impact of the reforms already underway. For example, improvements in compliance rates or defect rectification processes could be partly attributable to the proposed Regulations, partly to the existing legislation, or to a combination of both. This overlap limits the ability to isolate the incremental costs and benefits of the proposed Regulations with precision.

### **3.1.5. Approach to addressing uncertainty**

To address the challenges posed by uncertainty, all options considered in this RIS are discussed qualitatively using a multi-criteria analysis (MCA) applied where there are significant differences in impact between options to identify the preferred approach (see section 3.2). This offers a structured way to compare options, even where precise quantification is not possible.

Where feasible, this RIS also seeks to quantify certain costs to illustrate their size and scale for different stakeholder groups (see section 3.3). These estimates are based on a combination of available data, historical trends and comparable policy settings in other jurisdictions. As such, these estimates of costs should be interpreted as illustrative case studies, providing examples of how impacts may arise under different circumstances rather than definitive projections. Break-even analysis is then applied to illustrate both the potential scale of benefits in these specific examples and the points at which those benefits would be realised (see section 3.4).

This RIS also includes targeted questions, inviting stakeholders to provide further evidence or perspectives on areas where DTP is specifically seeking input (in addition to more general feedback stakeholders may wish to provide through the public consultation process). This approach helps address gaps in the available data, refine assumptions made in this RIS and improve understanding of potential impacts, risks, and unintended consequences.

## **3.2. Multi-criteria analysis (MCA) to select the preferred option**

### **3.2.1. MCA methodology**

MCA has been used to compare and assess the regulatory options which are likely to impose the greatest impact. MCA involves a structured assessment of the different options using a series of criteria. This approach has been chosen as the preferred analysis tool as it provides a structured, balanced and transparent approach that can effectively highlight the key trade-offs for decision making, particularly in the presence of uncertainty.

MCA requires judgement as to how the proposed options will contribute to a series of criteria selected to reflect the benefits and costs associated with each option. Each criterion is assigned a weight reflecting the Government's view of how important the criterion is in informing the policy decision. A weighted score is then derived for each option, and the option with the highest weighted score is selected as the preferred option. The MCA technique is outlined in Figure 3.1 below.



Figure 3.1: Multi-criteria analysis

MCA refers to a range of techniques 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 and allows analysis to consider a wider range of criteria (e.g. equitable considerations) which are not typically included in other common financial analyses, like break-even analysis. All necessary subjective judgements and assumptions used to determine options and criteria, and to assign scores and weights, are made explicit in the analysis write up. 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.

Source: Deloitte Access Economics

### 3.2.2. MCA scoring scale

Under an MCA, each option is scored against a criterion on a scale from -10 to +10, based on how each option measures against that criterion in comparison to the base case (see Table 3.1). The option that receives the highest weighted score of all the criteria is then selected as the preferred option. The options are scored in comparison to the base case, which receives a score of zero for all criteria.

Table 3.1: MCA Scale

Score	Description
-10	Much worse than the Base Case
-5	Somewhat worse than the Base Case
0	No change from the Base Case
+5	Somewhat better than the Base Case
+10	Much better than the Base Case

Source: Deloitte Access Economics

### 3.2.3. Approach to selecting and weighting of MCA criteria

The MCA criteria for the options analysis related to the introduction of developer bonds and the FHWS are outlined in their respective analysis chapters (Chapter 4, Chapter 5, and Chapter 8). The total costs and benefits have been neutrally weighted at a total of 50 per cent each. This is consistent with the best practice as set out in Better Regulation Victoria's guidance note on MCA.<sup>84</sup> The individual criteria for each area of analysis are weighted according to their relative importance in achieving the objectives of the regulatory reform.

## 3.3. Approach to approximate quantification of costs

Where possible, this RIS quantifies costs using assumptions informed by available data, historical trends, and comparable policy settings in other jurisdictions. These estimates will be presented as illustrative examples to demonstrate the likely size and scale of impacts for different stakeholder groups. Given the inherent uncertainty in predicting the nature and frequency of building defects, the analysis will focus on case studies that illustrate how impacts may arise under different circumstances. This approach provides a practical way

<sup>84</sup> Better Regulation Victoria (2019), 'Guidance Note – Multi-Criteria Analysis' <<https://content.vic.gov.au/sites/default/files/2019-10/Guidance-note-Multi-Criteria-Analysis-MCA.pdf>>.



of testing how the reforms might affect stakeholders in real-world contexts, without overstating the precision of the estimates.

A full cost–benefit analysis has not been undertaken due to the uncertainty in both the precise nature of costs and, more significantly, the scale of potential benefits. In some cases, illustrative examples and estimates of potential costs have been included but have been rounded to signal the indicative nature of the estimates (see Figure 3.2).

Figure 3.2: Approach to rounding in this RIS

Throughout the options analysis chapters, where numbers can be directly traced to another source (or have been provided by 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:

**Table 0-2.3: Rounding in the RIS**

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 the rounded figures through 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 unit benefits and break-even points in the break-even analysis are not rounded, given that break-even analysis is not presented as an actual cost or benefit.

Source: Deloitte Access Economics

### 3.4. Break-even analysis

Break-even analysis is used alongside the qualitative and case study approach to provide further insight into the conditions under which reforms would deliver net benefits. Break-even analysis determines the point at which the benefits of a policy or intervention equal its costs. This point represents the minimum level of effectiveness required for the policy to yield enough benefits to be worth pursuing. Any benefit achieved beyond the break-even point generates a net positive outcome, further strengthening the case for implementation.

Break-even analysis involves three steps:

1. Estimating the cost of a reform option (see section 3.3).
2. Identifying a key benefit that the reform is expected to deliver and valuing one unit of that benefit.  
For example, the prevention of building defects is a targeted benefit of these reforms, and the value of one defect can be approximated by the avoided costs of rectifying it.
3. Calculating how often or to what extent this benefit would need to occur for its value to equal the total cost of the reform. This point of equivalence is referred to as the “break-even point”. In the above example, the break-even point would represent the number of defects that would need to be prevented for the reforms to deliver net benefits.

Applied in this way, break-even analysis does not predict the precise outcomes of reform. Instead, it highlights the scale of benefits required for the reforms to be worthwhile and provides a benchmark for assessing their feasibility under different circumstances. This method is particularly useful where benefits are uncertain or difficult to measure directly, as is the case with the proposed Regulations.



## Part 1: The Developer Bond Scheme

This section outlines the options, presents the options analysis, and summarises the impacts of the preferred options for the developer bond scheme.

### **APPROACH TO ASSESSMENT OF OPTIONS RELATING TO THE DBS**

As outlined in Chapter 3, options related to the DBS are first assessed using an MCA framework. This framework is used to identify the preferred option by evaluating how each option performs against a defined set of criteria. Based on the expected scale of impact, there are two areas of regulation for the DBS that require detailed analysis through MCA. These include:

- The definition of reportable defects (Chapter 4)
- The qualifications of builder assessors (Chapter 5)

There are several aspects of regulation that are primarily operational in nature and define the scope of the DBS as set out in legislation (for example, maturity date of the bond and the treatment of mixed-use buildings). These include several fees associated with the scheme, which are expected to generate only a small amount of revenue and are therefore considered low impact. While these proposed fees and other regulatory design settings have not been subjected to detailed options analysis, the rationale behind their selection, as well as any direct impact they may have on the size and scale of the costs or benefits, is outlined in Chapter 6.

An illustrative case study is then provided in Chapter 7 to provide an indication of the potential scale of costs and benefits for the preferred options, which give effect to the DBS.



## 4. DBS: Definition of reportable defective building work

This chapter describes the options for the definition of reportable defective building work and outlines the options analysis undertaken to identify the preferred option.

### 4.1. Options for the definition of reportable defective building work

The Buyer Protections Act stipulates that upon completing each inspection, the appointed building assessor is required to produce a report detailing any identified reportable defective building work. The Act defines reportable defective building work to be “defective building work that is prescribed to be reportable defective building work.”<sup>85</sup> In this respect, reportable defective building work must be defined in the Regulations to provide clarity on what defects are covered under the scheme.

#### 4.1.1. Base case

Without a clear definition of which defects are considered reportable, significant ambiguity would arise for developers, apartment owners and building assessors regarding the types of defective building work that are eligible for rectification under the DBS. Without clear criteria to identify reportable defective building work, inconsistencies may arise between the scope of different assessor’s reports, which would undermine the scheme’s effectiveness.

Relying solely on building assessors to determine what constitutes a defect without clear guidelines or definitions would introduce subjectivity and inconsistency into the process. Without an established framework, different assessors could apply varying interpretations, leading to discrepancies in what is deemed reportable. This lack of uniformity could result in disputes between stakeholders, such as developers and consumers, over whether specific issues fall within the scheme's scope. The DBS therefore relies on prescribing a precise definition for reportable defective building work for the scheme to operate as intended.

#### **CASE STUDY: THE DIFFERENCE BETWEEN DEFECTIVE AND NON-COMPLIANT BUILDING WORK**

In Victoria, incorrect or sub-standard work can generally be classified into two categories: defective work and non-compliant work. Part 6 of the Buyer Protections Act defines defective work as building work that breaches any warranty listed in Section 8 of the *Domestic Building Contracts Act 1995* (DBC Act) or fails to maintain a standard or quality of building work specified in the domestic building contract under which the work is being carried out.<sup>86</sup> Defective work can include instances of poor workmanship or the use of unsuitable materials. For instance, the use of cheaper fibreglass insulation in a roof where the building contract specified the use of mineral wool is considered a defect.<sup>87</sup> While the use of fibreglass insulation is legal, its use in this instance is classified as a defect as it does not meet contractual requirements. Defective work can range from minor aesthetic issues such as dents in walls or uneven paint finishes to more significant problems such as cracks in slabs or foundations.

<sup>85</sup> This term will be defined in Section 137ZM of the Building Act.

<sup>86</sup> *Building Legislation Amendment (Buyer Protections Act) 2025*. Section 8 of Domestic Building Contracts Act 1995 covers implied warranties concerning all domestic building work. These include warranties that the work will be done properly, with reasonable care and skill, using suitable and (unless stated otherwise) new materials, and in compliance with all legal requirements.

<sup>87</sup> Department of Transport and Planning, The quality is not what we agreed to. <<https://www.building.vic.gov.au/common-problems/the-quality-is-not-what-we-agreed-to>>



Non-compliant work is defined as work which is in breach of the building permit and/or building laws, including the Building Act, the Building Regulations 2018 and Plumbing Regulations 2018.<sup>88</sup> This type of work fails to meet the minimum required legal standards for building work. Examples include structural work that does not satisfy relevant performance requirements in the National Construction Code or essential safety measures that do not comply with the Building Regulations 2018.

Importantly, non-compliant domestic building work is also defective domestic building work because the warranty in section 8(c) of the DBC Act provide protections against building work that does not comply with relevant laws and legal requirements. Non-compliant work is generally considered to be more serious to the health and safety of building occupants than purely defective work as it involves a breach of laws, the National Construction Code and safety standards.

#### **4.1.2. Option 1: All defective building work in common property and private lots**

This option covers all defective building work in both common property and private lots. Common property refers to any areas within a residential apartment building that are not lots on the plan of subdivision and are marked as common property on a plan of subdivision. Examples include areas such as gardens, walkways, passages, lifts and stairwells. In contrast, lots are parts of the buildings that can be separately sold and owned such as apartments and car spaces. Option 1 extends its coverage to include breaches of warranties as listed in section 8 of the DBC Act, as well as failures to maintain a standard or quality of building work specified under the contract of the work. Among the three options considered, this option offers the broadest coverage and aligns with the coverage provided by New South Wales Strata Building Bond and Inspections Scheme (SBBIS).

#### **4.1.3. Option 2: All defective building work in common property and non-compliant work in private lots**

Option 2 limits the coverage provided to private lots to non-compliant work only, while maintaining broader coverage of defective work for common property. Under this option, private lot owners will be covered only in instances where the building work does not meet legal requirements and standards. Common property, however, would continue to be protected against a wider range of defects (see case study above).

#### **4.1.4. Option 3: Non-compliant building work only in both common property and private lots**

Option 3 provides the narrowest coverage across all proposed options. This option limits the bond's scope to non-compliant work only, applying this limitation uniformly across both common property and private lots. The primary objective of this option is to provide coverage for the highest-risk defects only, ensuring that only issues involving non-compliance with legal requirements and standards are covered by the bond.

Table 4.1 below provides a summary of the inclusions under each option considered.

*Table 4.1: Summary of options considered for reportable defective building work*

<b>Option</b>	<b>Common property</b>	<b>Private lots</b>
Option 1	All defective work	All defective work
Option 2	All defective work	Non-compliant work only
Option 3	Non-compliant work only	Non-compliant work only

<sup>88</sup> Department of Transport and Planning, Unhappy with standard, quality or finish. <<https://www.building.vic.gov.au/common-problems/unhappy-with-the-standard-quality-or-finish>>



#### 4.1.5. Inclusion of non-residential lots

Residential apartment buildings often contain non-residential lots such as cafes and shops. These non-residential lots have not been considered within the MCA as the primary intent of the DBS is to improve consumer protections for owners of residential lots. However, serious defects within non-residential lots have the potential to impact common property and residential lots within the building. For instance, failures in waterproofing or fire protections in non-residential lots can pose safety risks for other parts of the residential apartment building.

DTP has therefore included serious defects in non-residential lots within the scope of the DBS. However, the threshold for defective work would be higher for non-residential lots than for residential lots and common property.

It is proposed that defects in non-residential lots that meet the criteria for serious defects as defined in part 5 of the Buyer Protections Act be included within the definition of reportable defective building work.

Therefore, the following defects in non-residential lots would be included within reportable defective building work:

- A defect in a major building element that is caused by non-compliant work; or
- A defect in the building work or in a building product used to construct the building work that:
  - o is attributable to:
    - defective design; or
    - defective or non-compliant building work; or
    - defective materials; and
  - o has caused or is likely to:
    - cause the building to be uninhabitable or prevent it from being used for its intended purpose
    - cause the building or part of the building to be destroyed; or
    - cause the building or part of the building to be under threat of collapse; or
- The use of an unsafe building product.
- A defect that is prescribed for the purposes of this definition.

A non-preferred sub-option for the scope of cover for non-residential lots was considered but not progressed by the Department. In this non-preferred option, the building assessor would make a subjective assessment on whether a serious defect that occurs within a non-residential lot would impact upon the common property or a private residential lot of the apartment building. Only serious defects that would have an impact on the rest of the apartment building would be considered by the assessor as reportable defective building work.

Because this non-preferred sub-option was not progressed, it has not been factored into the analysis of options for the scope of reportable defective building work.

Furthermore, as the inclusion of non-domestic lots is common across all options, it has not been included in the following MCA.

There is currently insufficient data on the prevalence of non-domestic lots in residential apartment buildings. There is also inadequate data on the prevalence of serious defects in such lots that can impact common property and residential lots within the residential apartment building.

DTP would welcome feedback from stakeholders on whether the definition of reportable defective building work should be extended to include non-residential lots.



### REQUEST FOR STAKEHOLDER INPUT

DTP welcomes all stakeholders with any data or information on the likely costs and benefits of including serious defects in non-residential lots. In particular, DTP would welcome input on the following points for residential apartment buildings of four storeys and above:

1. Prevalence of non-domestic lots within in-scope buildings
2. Frequency and costs associated with serious defects in these non-residential lots.

## 4.2. Approach to MCA

The criteria outlined in Table 4.2 have been selected to assess the options for defining reportable defective building work. The direct cost impact on stakeholder groups has been accounted for in the MCA, highlighting who bears the initial burden of regulatory change. However, it is likely that costs incurred by developers may be passed through, to some extent, to the end consumer through higher house prices or increased costs for new builds. However, DTP do not anticipate that any flow on costs will be significant and believe the proposed Regulations should reduce costs incurred by consumers and OCs in rectifying defective building work.

The assigned weightings reflect DTP's prioritisation of policy objectives, balancing consumer protection and an improvement in building quality. Both benefit criteria have been weighted equally as both align with the scheme's core objective of safeguarding consumers and restoring trust in the building industry.

The costs to apartment owners and OCs and the costs to developers are weighted equally at 20 per cent, recognising the need to minimise financial impacts on these key groups. By contrast, the costs to Government are weighted lower at 10 per cent, as DTP places greater value on minimising the impacts borne by private stakeholders, such as homeowners and developers, over those incurred by the Government itself.

Table 4.2: MCA criteria for reportable defective building work

Criterion	Description	Weighting
<b>Benefits</b>		
Improved consumer protection and confidence	The extent to which the option enables achievement of consumer protection objectives through appropriate defect rectification measures and enhances consumer confidence in the industry. This criterion also assesses the extent to which there are residual rectification costs for residents due to limitations in the bond's coverage.	25%
Promotion of improved building quality and standards	The extent to which the option incentivises developers to improve the quality and standard of their building work.	25%
<b>Costs</b>		
Costs to developers	The extent to which the option imposes costs on developers that would not have been incurred in the base case.	20%
Costs to consumers	The extent to which the option imposes administrative costs on apartment owners and OCs.	20%
Costs to Government	The extent to which the option imposes administrative costs on the Government.	10%
<b>Total weighted score</b>		<b>100%</b>



## 4.3. Options analysis

### 4.3.1. Base case

As outlined in section 4.10, the Buyer Protections Act directs building assessors to prepare a preliminary report identifying any reportable defective building work in the residential apartment building, along with its causes. Without a clear definition of reportable defective building work, under the base case, building assessors would have no basis to identify and categorise defective building work for the purpose of the DBS.

Consequently, assessors would not be able to fulfill their critical role of performing assessments and producing reports of defective building work, which is required to enable the DBS to operate.

The developer bond scheme incentivises developers to improve the quality of building work in residential apartment buildings.

In this MCA, the base case serves as the counterfactual scenario against which all other options are considered. The base case therefore receives a score of 0 against all criteria.

#### REQUEST FOR STAKEHOLDER INPUT

The assessment of options in the following sections has been undertaken based on DTP's expectations of the likely benefits from the proposed reforms. DTP invites input from all stakeholders with additional data or information on the following discussion of impacts to refine DTP's understanding of the scale of the impact of the proposed Regulations. DTP would be particularly interested in views on:

3. The prevalence and distribution of defective and non-compliant work in Class 2 buildings.
4. The distribution of defects between common property and private lots
5. Any factors that drive variations in costs for fixing defective work and non-compliant work.

### 4.3.2. Criterion 1: Improved consumer protection and confidence

This criterion assesses the extent to which the option enables the achievement of consumer protection objectives and enhances consumer confidence in the industry. The scores awarded to each option against this criterion are presented in Table 4.3.

Table 4.3: MCA scores for criterion 1: Improved consumer protection and confidence

Criterion	Weighting	Base case	Option 1	Option 2	Option 3
Improved consumer protection and confidence	25%	0	9	7	5
<b>Weighted score</b>		0	2.25	1.75	1.25

#### 4.3.2.1. Option 1: All defective building work in common property and private lots

Option 1 is awarded a score of 9 for its impact on consumer protection and confidence. Option 1 represents a significant improvement over the base case. Option 1 introduces a clear definition for "reportable defective building work", establishing a clear foundation for identifying and addressing defects through the DBS. This allows consumers, represented by OCs, to claim rectification costs for eligible defects identified in the final inspection report. By operationalising the claims process, Option 1 ensures that consumers have a reliable mechanism to address building defects without bearing the financial burden themselves, directly fulfilling one of the objectives of the proposed Regulations.

Option 1 provides the broadest scope of coverage of the three options considered, which includes all defective work in both private lots and common property. Importantly, this includes defects that may technically comply with legal or regulatory standards but fail to meet contractual obligations or expected building quality. This approach provides the most comprehensive safety net for consumers, ensuring that a wide range of



issues, from workmanship flaws to more serious structural defects, can be addressed. Further, by including coverage for both common property areas as well as private lots at this level, Option 1 provides holistic protection for apartment owners, fostering greater confidence in the construction industry and in the quality of Victorian building work. By covering both defective and non-compliant building work, owners are less likely to face out-of-pocket repair costs that fall within the bond amount than under the base case.

Therefore, Option 1 represents a transfer in financial liability for the rectification cost of both defective and non-compliant work from the consumer to the developer (up to the value of the available bond amount).

By including defective work in the definition of “reportable defective building work”, Option 1 is able to address minor quality issues early before they escalate into long-term safety risks or necessitate costly repairs. This reduces future liabilities for apartment owners. In doing so, Option 1 further contributes to consumer confidence as owners would be assured that the quality of their private apartments and common areas within their apartment buildings is less likely to deteriorate over time. This broad definition also decreases the likelihood that apartment owners will need to pursue costly dispute resolution processes or negotiate directly with developers to address defects.

While Option 1’s broad definition ensures that all defective work is captured and eligible for claims, the available bond amount is limited to 2 per cent of the value of the building work. While there is a potential risk that there may be insufficient funds remaining in the bond to fix all identified defects, this risk is lower than in the base case where no clear mechanism exists to allocate funds for defect rectification. In circumstances where a significant number of defects have been identified, it is likely that defect rectification will need to be triaged with the more serious issues addressed first. This approach may result in some defects remaining unrectified if the bond amount is insufficient to cover all costs. In such instances, apartment owners will have to pursue other means such as seeking rectification orders from the BPC or pursuing the matter through VCAT (which is already likely to occur in the base case). Option 1, therefore does not receive a perfect score of 10.

#### 4.3.2.2. Option 2: All defective building work in common property and non-compliant work in private lots

Option 2 receives a score of 7 for this criterion as it provides moderate improvements to consumer protection and confidence in comparison to the base case. As with Option 1, Option 2 prescribes a definition for “reportable defective building work”, enabling the DBS to function by allowing claims for rectification costs.

The key difference between the options is scope of cover. While Option 1 covers all defective work across both private lots and common property, Option 2 narrows the scope for private lots to include only non-compliant work. In common areas, all defective work is covered, which benefits all residents and the OC by ensuring shared infrastructure and spaces are kept safe, functional, and fit-for-purpose.

However, individual apartment owners receive more limited protection. Under Option 2, apartment owners may bear the risks and costs of rectifying work that is poor in quality or performance but not technically in breach of building standards. This distinction may create inequity between owners, with protections stronger for common areas than for private lots and may contribute to consumer dissatisfaction and costly dispute resolution processes relative to Option 1.

Option 2 also introduces a threshold that may confuse apartment owners as many consumers might not understand the technical line between defective and non-compliant work. Only defects deemed non-compliant with building standards qualify for rectification, while clearly poor-quality but technically compliant work receives no support. This distinction can appear arbitrary, leaving some owners with visibly costly defects excluded from assistance. The resulting disparities may create perceptions of unfairness as consumers might view their apartments as receiving less accountability and coverage compared to common property or other apartments with non-compliant work. This could undermine cohesion within OCs and erode trust in both the scheme and the broader building industry.



#### 4.3.2.3. Option 3: Non-compliant building work only in both common property and private lots

Option 3 receives a score of 5 for this criterion as relative to all other options, it provides the narrowest level of consumer protection, as it is limited to rectifying only work that is non-compliant. This ensures that the most serious, unsafe, or unlawful defects are addressed, offering some reassurance to consumers that buildings will at least meet the minimum standards required under law.

However, this approach excludes a broad range of issues that, while technically compliant, may still represent poor-quality workmanship or materials. This may include defects such as uneven finishes, substandard fittings, or work that quickly deteriorates, diminishes amenity and contributes to further damage or deterioration in quality over time.

By setting the threshold at non-compliant work, Option 3 places greater responsibility on consumers to manage or rectify many defects themselves. Owners may be forced to pursue costly disputes with builders or accept the financial burden of rectifying problems themselves, even when the work clearly fails to meet reasonable expectations of quality. This could be either directly organising and paying for repairs or through special levies raised by OCs to pay for rectification works. Such outcomes can create additional stress and financial strain for affected consumers, particularly where defects negatively impact the liveability or value of their property.

Further, the limited scope under Option 3 may also affect perceptions of fairness and trust in the scheme. Consumers may view the exclusion of certain defects as overly restrictive or inconsistent with the scheme's broader objectives of protecting buyers and improving building quality. Over time, this perception could undermine confidence in the DBS as a reliable mechanism for addressing industry shortcomings.

#### 4.3.3. Criterion 2: Promotion of improved building quality and standard

This criterion measures the extent to which the options incentivise developers to improve the quality and standard of their building work. Table 4.4 provides a summary of the scores across the three options for this criterion.

Table 4.4: Summary of MCA scores for Criterion 2: Promotion of improved building quality and standard

Criterion	Weighting	Base case	Option 1	Option 2	Option 3
Promotion of improved building quality and standard	25%	0	8	6	4
<b>Weighted score</b>		0	2	1.5	1

##### 4.3.3.1. Option 1: All defective building work in common areas and private lots

Option 1 is awarded a score of 8 for its ability to promote improved building quality and standards due to its strong incentives for developers and builders to adopt better construction practices. By introducing a clear definition for reportable defective building work, Option 1 enables the DBS to function effectively, addressing the shortcomings of the base case. In the absence of such a definition, the DBS would fail to operate, providing little motivation for developers to improve building quality. Option 1 addresses this by creating a framework where a broader range of defects can be identified and rectified.

Of the three options considered, Option 1 offers the most comprehensive coverage across both common areas and private lots. By exposing developers to financial liability across the full range of potential defects, Option 1 ensures that developers cannot avoid responsibility for poor-quality construction. This broad scope can offer significant incentives for developers to deliver higher-quality work throughout every stage of the construction process, knowing that any defect could result in claims against the bond and financial consequences associated with rework.

To minimise the risk of claims, developers are likely to invest more in improved design, better construction oversight, and enhanced quality assurance practices. These proactive steps not only reduce the likelihood of



defects but also contribute to raising overall industry standards by embedding quality considerations into project planning and execution.

The broad scope of Option 1 ensures no part of the building is overlooked, fostering consistency in quality across all areas. Additionally, frequent claims against bonds under this option could negatively impact developers' reputations, providing further motivation to maintain high standards to avoid reputational damage.

#### 4.3.3.2. Option 2: All defective work in common property and non-compliant work only in private lots

Option 2 receives a score of 6 for this criterion as it provides developers with moderate incentives to improve building quality compared to the base case. Compared to the base case, where the DBS is unlikely to function effectively without a clear definition of reportable defective building work, Option 2 establishes a framework that drives some improvements in quality. This is particularly the case for common areas where all defective work is in scope of the bond. As with Option 1, Option 2 encourages greater oversight of works that can affect multiple owners and/or the structural integrity of the entire building. Knowing that all defects in these areas are eligible for claims under the bond creates a financial incentive for developers to prioritise quality control in shared spaces, which are often highly visible and can be related to access and safety.

However, the narrower scope for private lots (where only non-compliant work qualifies for rectification) could weaken the incentive for developers to maintain high construction standards across individual apartments or private spaces. By focusing solely on breaches of legal or regulatory requirements, Option 2 excludes defects that may still reflect poor workmanship or substandard materials, such as uneven finishes, subpar fittings or items that deteriorate prematurely. This limited coverage reduces accountability for issues that, while not strictly non-compliant, fall short of good industry practice.

Overall, Option 2 would promote some uplift in quality relative to the base case, particularly for common areas, but might not drive comprehensive improvements across the entire building.

#### 4.3.3.3. Option 3: Non-compliant work only in both private lots and common areas

Option 3 receives a score of 4 for its impact in improving building quality and standards. This is because its narrower focus, relative to other options, offers limited incentives for developers to enhance overall construction quality. By restricting the bond's coverage to non-compliant building work, Option 3 motivates developers primarily to avoid regulatory violations. While this reduces the risk of non-compliant building work, it provides little incentive to exceed minimum standards or address legally compliant but substandard work.

Meeting the minimum standards can help ensure that lots and common property meet basic expectations for liveability and functionality. However, Option 3 would not provide sufficient incentives for developers to exceed these benchmarks. Opportunities for further quality improvements may therefore not be realised. As such, this option is aimed at reducing non-compliant work but could be less effective than option one in uplifting the overall quality of work to the residential apartment building.

### 4.3.4. Criterion 3: Costs to developers

This criterion measures the extent to which the option requires developers to incur rectification costs that would not have been incurred in the base case. A summary of the scores for each option for Criterion 3 are provided in Table 4.5.

Table 4.5: MCA scores for criterion 3: costs to developers

Criterion	Weighting	Base case	Option 1	Option 2	Option 3
Costs to developers	20%	0	-7	-5	-3
<b>Weighted score</b>		0	-1.4	-1	-0.6



#### 4.3.4.1. Option 1: All defective work in common property and private lots

Option 1 receives a score of -7 for this criterion as it imposes the highest cost burden on developers across the three options and relative to the base case. In the base case, it is assumed that no claims will be made under the DBS. As Option 1 covers the widest range of defects, including both non-compliant and defective work across both private lots and common property, this greatly increases the scope and volume of potential claims. This exposes developers to higher financial liability for a broad range of issues, including those that may be functional but of poor quality.

This additional financial liability however represents a transfer of financial risk from consumers to developers as is discussed in section 4.3.2.1. The benefit of this financial transfer is expected to outweigh costs to developers, as reflected in the higher positive score under criterion 1 for Option 1. There is evidence in the literature that defects become more expensive to fix over time. For instance, the cost of rectifying non-compliant waterproofing and framework during construction could cost \$12,100 while the same defect could cost nearly \$17,500 to fix after construction.<sup>89</sup> This lower cost during the construction phase could be due to factors such as easier access to the defective site or the availability of labour and tools on-site to fix the problematic work.

The Buyer Protections Act introduces several obligations for developers, including notifying the BPC when a bond is issued, appointing a building assessor for required inspections, and releasing bond funds as directed by the BPC. Developers are expected to secure the bond primarily through a bank guarantee, which would add further costs such as ongoing bank fees. Chapter 7 provides an illustrative example of potential costs to developers. These costs are anticipated to remain stable across all options, as they are not influenced by changes in the DBS's scope. Consequently, administrative costs do not affect the comparative scoring between the three options.

The incremental cost to developers is somewhat moderated by the fact that a proportion of defects identified through the DBS may have been resolved informally in the base case. While Victorian specific data is not currently available, evidence from New South Wales shows that agreement with the developer and/or builder was the most common method of defect rectification in buildings with serious defects.<sup>90</sup> 27 per cent of defects in apartment buildings were resolved through this method. Assuming a similar proportion for Victoria would indicate that over a quarter of defects are already resolved by developers and/or builders in the base case.

The broader scope of defects under Option 1 also impacts inspection time and reporting requirements for building assessors. As developers are also responsible for covering the costs of appointing a building assessor, Option 1 further increases costs to developers. Under Option 1, building assessors would need to evaluate all types of defective work, including subjective issues such as poor workmanship, substandard finishes, or materials that fall short of reasonable expectations but remain legally compliant. This would create greater scope for interpretation and potential ambiguity, requiring assessors to carefully document, justify, and prioritise defect claims. The need to capture a wider range of issues would increase the time and effort required for inspections, reporting, and follow-up actions, particularly in private lots where the volume of individual units can be high. As the scope of inspections increases, so would the building assessor fees charged to developers. In New South Wales, inspections for the equivalent Strata Building Bond and Inspection Scheme cost an average of \$125 per dwelling per inspection.<sup>91</sup> Assuming a similar cost in Victoria,

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<sup>89</sup> Department of Transport and Planning (2025), Building Amendment (Building Manuals and Mandatory Inspections) Regulations 2025. <<https://www.vic.gov.au/sites/default/files/2025-04/Building-Amendment-2025-Regulatory-Impact-Statement.pdf>>

<sup>90</sup> Office of the Building Commissioner and Strata Community Association NSW (2021), Research report on serious defects in recently completed strata buildings across New South Wales. <[https://www.nsw.gov.au/sites/default/files/2021-10/Serious\\_defects\\_in\\_residential\\_apartments\\_research\\_report.pdf](https://www.nsw.gov.au/sites/default/files/2021-10/Serious_defects_in_residential_apartments_research_report.pdf)>

<sup>91</sup> New South Wales Government (2023), Mandating Decennial Liability Insurance Regulatory Impact Statement. <[https://hdp-au-prod-app-nsw-haveyoursay-files.s3.ap-southeast-2.amazonaws.com/8216/9897/4614/22878f6fc96b44992b83756d17b0ee38\\_RegulatoryImpactStatementDecennialLiabilityInsurance.pdf](https://hdp-au-prod-app-nsw-haveyoursay-files.s3.ap-southeast-2.amazonaws.com/8216/9897/4614/22878f6fc96b44992b83756d17b0ee38_RegulatoryImpactStatementDecennialLiabilityInsurance.pdf)>



the preliminary and final inspections would cost a developer of an apartment building with 66 apartments<sup>92</sup> approximately \$16,500.

DTP anticipates that building assessor fees for preliminary inspections would be consistent across all three options, as assessors would need to inspect all issues raised by OCs and residents, even if they are out of scope for the bond. Variation in fees would arise across the options for the final inspection and report where the assessor's efforts would be focused on the issues highlighted in the preliminary report. Therefore, Option 1 would impose costs on developers compared to the base case.

Further, as the bond is capped at 2 per cent of total building work, it may be that this amount is not enough in certain cases to provide for the costs of rectifying all defects identified in the assessor's final report. At this point, other mechanisms (such as ROs) may be triggered but this lies outside of the scope of this analysis.

#### 4.3.4.2. Option 2: Defective work in common property and non-compliant work in private lots

Option 2 receives a score of -5 for this criterion as it moderates the cost impacts associated with Option 1 by limiting the scope of liability in private lots to only non-compliant work. Developers would still bear responsibility for all defective work in common property areas, which can be substantial (e.g. lifts, fire systems, external facades). However, by narrowing the requirement in private units to breaches of legal standards, this option reduces exposure to subjective claims or minor aesthetic issues. Therefore, while common areas would receive the same level of coverage as under Option 1, the developer's exposure to claims is lower for individual apartments.

Furthermore, it is likely that building assessor fees would be lower under this option compared to Option 1, albeit marginally. Building assessors would need to consider all defective work in common areas as under Option 1. However, the scope for private lots would be narrower than under Option 1 and would avoid the need to assess subjective or aesthetic issues, streamlining the assessment process and limiting the volume and complexity of reporting. Therefore, Option 2 results in a slightly lower score than Option 1.

#### 4.3.4.3. Option 3: Non-compliant work only in common areas and private lots

Option 3 receives a score for -3 for costs to developers. Option 3 imposes the lowest cost burden on developers relative to all other options by covering only non-compliant work. This option would help reduce both the volume and complexity of claims, as well as associated financial risks.

Option 3 delivers the highest level of administrative efficiency for inspections across options by setting a clear legal standard of non-compliance against the *Building Act 1993* as the sole threshold for defect identification. This clarity would streamline inspections, as assessors would only need to check for breaches of building code or legislation, avoiding subjective judgments and grey areas. As a result, the volume of reporting would be reduced compared to the other options, and documentation would be more consistent and easier to manage.

### 4.3.5. Criterion 4: Costs to consumers

This criterion measures the residual costs on consumers due to limits in the bond's coverage. Table 4.6 provides a summary of the scores for each option for this criterion.

Table 4.6: Summary of MCA scores for criterion 4: Costs to apartment owners

Criterion	Weighting	Base case	Option 1	Option 2	Option 3
Costs to apartment owners	20%	0	-1	-0.75	-0.5
<b>Weighted score</b>		0	-0.2	-0.15	-0.1

<sup>92</sup> The CIE (2021), Building Confidence Report: A case for intervention <https://www.abcb.gov.au/sites/default/files/resources/2022/Building-confidence-report-case-intervention.pdf>



#### 4.3.5.1. Option 1: All defective work in common areas and private lots

Option 1 receives a score of -1 for this criterion. It imposes the highest cost burden on consumers (represented by OCs), across all options relative to the base case. Option 1 introduces some administrative costs for OCs compared to the base case, as they are required to coordinate inspections with residents, manage claims processes and compile records of defective or non-compliant work as necessary. These responsibilities may increase the workload for OCs, particularly in large residential buildings with numerous units and widespread defects. Given that Option 1 has the broadest coverage, it can be expected that it will impose the highest administrative burden in managing this process across the three options. However, broadly, DTP expects the costs to consumers associated with these processes to be minimal.

This is particularly the case as administrative costs are offset by a reduction in the financial burden associated with defect rectification as is discussed under Criterion 1 in section 524.3.2.1. Therefore, Option 1 only imposes slightly higher costs compared to the base case.

#### 4.3.5.2. Option 2: All defective work in common areas and non-compliant work only in private lots

Option 2 is awarded a score of -0.75 for this criterion due to its narrower scope and the associated reduction in administrative costs for the OC compared to Option 1. OCs would likely encounter similar administrative requirements under all three options when organising preliminary inspections in individual apartments. The key distinction from Option 1 arises due to more limited final inspections. Under Option 2, final inspections in individual apartments would only be limited to apartments where non-compliant work was detected during the preliminary inspection. This targeted approach would marginally reduce the administrative burden for OCs as fewer inspections would need to be organised at the final stage. Overall, Option 2 offers a modest improvement in administrative costs compared to Option 1.

#### 4.3.5.3. Option 3: Only non-compliant work in common areas and private lots

Option 3 receives a score of -0.5 for costs to consumers, as it imposes the lowest costs for consumers and OCs compared to the base case and across the three options considered. With the narrowest bond scope, Option 3 also minimises the administrative burden for OCs. Like Option 2, final inspections are required only for apartments identified with non-compliant work during the preliminary inspection phase, reducing administrative demands. Additionally, administrative workload is lessened because inspections in common areas are also restricted to those with identified non-compliances. This approach would not only decrease the number of inspections but also limit the need for OCs to arrange temporary closures of common areas during inspections, streamlining the process and reducing potential disruption to residents. Therefore, Option 3 provides the greatest administrative efficiency across the three options considered.

### 4.3.6. Criterion 5: Costs to Government

This criterion considers costs imposed under each option for the Government. The scores for each option under this criterion are summarised in Table 4.7 below.

Table 4.7: MCA scores for Criterion 5: Costs to Government

Criterion	Weighting	Base case	Option 1	Option 2	Option 3
Costs to Government	10%	0	-4	-3.5	-3
<b>Weighted score</b>		0	-0.4	-0.35	-0.3

#### 4.3.6.1. Option 1: All defective work in common areas and private lots

Option 1 is awarded a score of -4 for this criterion as it imposes a moderately higher administrative burden to Government relative to the base case. In the base case, it is assumed that no claims will be made on developer bonds because there is no clear definition of reportable defective building work. As such, under the base case there will be negligible administrative costs to the BPC associated with processing claims. Under Option 1,



however, the broad scope covering all defective work in both common areas and private lots introduces additional administrative responsibilities.

Under Option 1, the BPC must process applications each time a bond claim is to be made. To do so, the BPC would need to allocate staff and resources to review submitted claims, verify documentation, assess the eligibility of reported defects and decide on bond payouts. The broad coverage under Option 1 may lead to a higher volume of claims than narrower options, requiring careful oversight to manage the claims process efficiently and ensure compliance with the scheme's provisions.

The time and effort required to administer claims under Option 1 would either necessitate resourcing through new full-time equivalents (FTEs) or involve a reallocation of existing staff time away from other business-as-usual activities. As the BPC is still in its foundational stages, the exact costs associated with administering the DBS remain uncertain at this time. As such, a score of -4 has been awarded as a conservative estimate of the potential scale of these costs.

#### 4.3.6.2. Option 2: All defective work on common areas and non-compliant work in private lots

Option 2 receives a score of -3.5 for costs to Government due to its narrower scope for reportable defects, which slightly reduces the administrative burden compared to Option 1. With fewer claims expected from private lots, the overall number of bond claims to be processed is likely to decline, requiring fewer resources for claim reviews and approvals.

However, this reduction in direct administrative workload could be partially offset by an increased demand for the BPC's dispute resolution services or the requirement to issue ROs if the bond is not available to fund rectification works. The narrower scope under Option 2 may lead to more queries and complaints from stakeholders regarding defects that fall outside the bond scheme's coverage, potentially requiring additional effort to manage these interactions.

#### 4.3.6.3. Option 3: Non-compliant work only in common areas and private lots

Option 3 receives a score of -3 for costs to Government as it imposes the lowest administrative burden on the BPC due to its narrow scope. With coverage limited strictly to non-compliant defects, Option 3 is expected to generate fewer claims for the BPC to process compared to Options 1 and 2.

However, the further restricted scope may lead to even higher reliance on the BPC's dispute resolution services, as stakeholders could raise more queries or complaints about defects excluded from the bond scheme's coverage. This potential increase in demand for dispute resolution and rectification orders partially offsets the lower administration costs associated with processing fewer claims.

## 4.4. Identification of the preferred option

A summary of the MCA scores across all options and criteria is presented in Table 4.8. The MCA identifies Option 1 as the preferred option for defining "reportable defective building work" under the DBS. Option 1 provides the broadest coverage by including both defective and non-compliant building work across private lots and common property. This comprehensive scope ensures that a wide range of defects, from serious regulatory breaches to poor workmanship and material quality, are eligible for rectification under the developer bond. By capturing all types of defective work, Option 1 creates significant consumer protections and supports the scheme's objectives of improving building quality and restoring trust in the residential construction industry.

Option 1 strongly incentivises developers and builders to prioritise quality throughout the construction process. With financial liability extending to a greater variety of potential defects, developers are encouraged to invest in improved design, construction oversight, and quality assurance. These incentives help drive industry-wide improvements in building standards while ensuring accountability for issues affecting residents.



The inclusion of private lots in addition to common property also prevents developers from deprioritising less visible areas of a building, thereby promoting consistent quality across all aspects of a project.

For consumers, Option 1 provides substantial financial protection, significantly reducing the out-of-pocket costs associated with rectifying both major and minor defects. OCs benefit from the ability to claim rectification costs for common property issues, while private lot owners are protected against the financial burden of addressing poor-quality but legally compliant defects. Although the capped bond amount may occasionally fall short of covering all rectification costs, the broader safety net under Option 1 minimises the financial risks borne by consumers compared to other options.

While Option 1 imposes moderately higher administrative costs on the Government through increased claims processing and oversight responsibilities, the comprehensive framework established under Option 1 strengthens the effectiveness and credibility of the DBS as a tool for addressing systemic issues in the construction sector.

In summary, Option 1 is the preferred choice because it offers the most robust consumer protections, promotes improved building standards, and ensures greater accountability within the industry. By providing comprehensive defect coverage and strong financial safeguards for consumers, Option 1 best aligns with the objectives of the DBS and supports broader efforts to enhance confidence in the building sector.

Table 4.8: Overview of MCA scores for defining reportable defective building work

Criterion	Weighting	Base case	Option 1	Option 2	Option 3
<b>Benefits</b>					
Improved consumer protection and confidence	25%	0	9	7	5
Promotion of improved building quality and standards	25%	0	8	6	4
<b>Costs</b>					
Costs to developers	20%	0	-7	-5	-3
Costs to apartment owners and OC	20%	0	-1	-0.75	-0.5
Costs to Government	10%	0	-4	-3.5	-3
<b>Total weighted score</b>		<b>0</b>	<b>2.25</b>	<b>1.75</b>	<b>1.25</b>

## 5. DBS: Qualifications for building assessors

### 5.1. Options for prescribing qualifications for building assessors

As described in Chapter 4, the Buyer Protections Act requires the developer to appoint a qualified building assessor who will carry out inspections and prepare reports outlining any reportable defective building work. Further, the Buyer Protections Act requires the Regulations to prescribe the qualifications necessary for building assessors. Three options have been identified for prescribing qualifications for building assessors.

#### 5.1.1. Base case

Under the base case, where no qualifications are prescribed for a qualified person to be a building assessor, the scheme would not function in the intended fashion, and several legislative provisions would become ineffective. A developer would be unable to nominate an assessor for approval by the relevant owners corporation. Instead, the BPC would be required to appoint any person as a building assessor under all circumstances. This would increase the administrative requirements placed upon the BPC to a degree that is greater than if qualifications were prescribed for a qualified person to be a building assessor.



Furthermore, the absence of any prescribed qualifications could generate uncertainty for both prospective building assessors and the BPC regarding the appropriate eligibility criteria required for this role. This ambiguity could discourage qualified building practitioners, inspectors, surveyors, and other professionals from putting themselves forward to be building assessors, which would limit the pool of potential assessors. The absence of clear operational rules would also weaken the scheme's incentive effect for developers to comply with building standards. This would undermine the effectiveness of the DBS and increase the risk of defective building work going unaddressed.

For the purposes of this RIS, a base case has been assumed where the BPC must appoint any person as a building assessor in all cases, because a developer is unable to nominate a qualified person as a building assessor for approval by the owners corporation.

### **5.1.2. Option 1: Persons holding current registration in certain categories and classes of building practitioners**

Under this option, building practitioners holding the following current registration are deemed to possess the qualifications and technical skills required to carry out the function of the building assessor:

- **Building surveyor (unlimited):** Building surveyors provide independent oversight over building work by assessing and approving building permits, inspecting building works and authorising occupation of the building. Building surveyors (unlimited) do not have any restrictions on the building class, floor area or height of building they can work on.
- **Building inspector (unlimited):** Building inspectors help enforce building standards through conducting inspections of building work under the authority of a relevant building surveyor (RBS). Building inspectors (unlimited) can carry out inspections of building work for all building classes, floor areas and height.
- **Domestic builder (unlimited):** Domestic builders (unlimited) are authorised to carry out, manage and arrange for the carrying out all aspects of domestic building work.

### **5.1.3. Option 2: Inspector panels maintained by authorised professional associations**

The Buyer Protections Act provides that authorised professional associations may accredit persons to carry out the functions of a building assessor if they are satisfied that the person holds the knowledge and experience suitable for carrying out the functions of a building assessor. Under Option 2, the Regulations would list the authorised professional associations that can accredit building assessors. Unlike Option 1, an association's assessment of suitability for accreditation would not necessarily be tied solely to active registrations. Option 2 has been designed according to the building inspector requirements under the New South Wales Strata Building Bond and Inspection Scheme (SBBIS).

### **5.1.4. Option 3: Persons holding current registration in certain categories and classes of building practitioners, as well as the ability for the BPC to approve appropriate persons as a qualified person for the role of a building assessor:**

Under Option 3, and similar to what has been discussed already under option 1, building practitioners holding the following current registration are deemed to possess the qualifications and technical skills required to carry out the function of the building assessor:

- **Building surveyor (unlimited):** Building surveyors provide independent oversight over building work by assessing and approving building permits, inspecting building works and authorising occupation of the building. Building surveyors (unlimited) do not have any restrictions on the building class, floor area or height of building they can work on.
- **Building inspector (unlimited):** Building inspectors help enforce building standards through conducting inspections of building work under the authority of a relevant building surveyor (RBS). Building inspectors (unlimited) can carry out inspections of building work for all building classes, floor areas and height.



– **Domestic builder (unlimited):** Domestic builders (unlimited) are authorised to carry out, manage and arrange for the carrying out all aspects of domestic building work.

In addition to those classes of building practitioners, the BPC would be able to assess and approve written applications from persons who wish to be deemed as a qualified person for performing the role of a building assessor. This could include professionals who are considered by the BPC as being appropriately qualified, but who do not possess an active registration. The BPC would have broad discretion for determining the suitability of persons applying to be an assessor.

Option 3 combines elements of Options 1 and 2. Similar to Option 1, the primary basis for determining the assessor’s suitability could be based on registration in certain categories or classes of building practitioners. However, like Option 2, this would not necessarily be restricted to holders of current registration as a basis for determining a person’s suitability for the building assessor role. This would enable the BPC to consider practitioners who may have been previously registered as a practitioner in an appropriate category or class but choose not to hold an active registration. Option 3 would also enable the BPC to consider practitioners with professional backgrounds beyond the ones identified under Option 1 to include professions such as registered engineers, architects, commercial builders, and building consultants.

## 5.2. Approach to MCA

The criteria used to assess the identified options for building assessor qualifications are described in Table 5.1. Two benefit criteria and three cost criteria have been selected. The cost and benefit criteria have been neutrally weighted at 50 per cent each. The selected criteria have been weighted according to their relative importance in achieving the objectives of the Regulations (see section 2.5).

The benefit criterion for improved consumer protection has been weighted higher than simplicity as it more strongly aligns with the Government’s core objectives for the FHWS. The cost criteria of costs to industry associations and practitioners have been equally weighted at 20 per cent each. Government costs are weighted lower than costs to professional associations and practitioners to reflect the higher importance placed on costs incurred by these parties under the proposed reforms relative to the Government’s cost.

Table 5.1: MCA criteria for assessing options for building assessor qualifications

Criterion	Description	Weighting
<b>Benefit criteria</b>		
Simplicity in understanding requirements to become building assessors	The extent to which the pathway to become a building assessor is well understood by the industry and practitioners and is therefore easy to follow. The option also considers the consistency of requirements across the industry	20%
Improved consumer protection	The extent to which this option enables consumer protection through Government oversight over practitioner eligibility and enables consumer protection through a well-qualified building assessor workforce	30%
<b>Cost criteria</b>		
Costs to industry associations	The extent to which the option imposes costs on industry associations	20%
Costs to practitioners	The extent to which the option imposes costs on practitioners who would like to become building assessors.	20%
Costs to Government	The extent to which the option imposes administrative costs to the Government	10%



## 5.3. Options analysis

### 5.3.1. Base case

Under the base case, there would be no prescribed qualifications for building assessors. This would result in the scheme not functioning in the intended fashion, and several legislative provisions becoming ineffective. A developer would be unable to nominate an assessor for approval by the relevant owners corporation, and the BPC would instead be required to appoint any person as a building assessor under all circumstances. This would increase the administrative requirements placed upon the BPC to a greater degree than has been anticipated.

Furthermore, the absence of any prescribed qualifications for building assessors could generate uncertainty for both prospective building assessors and the BPC regarding the appropriate eligibility criteria required for this role. This ambiguity could discourage qualified building practitioners, inspectors, surveyors, and other professionals from putting themselves forward to be building assessors, which would limit the pool of potential assessors.

This could result in uncertainty and confusion over who is eligible to undertake this role. Prospective building assessors would be left without a clear process or requirements for accreditation, making it difficult for individuals to determine how they could become eligible for the role. The lack of a standard pathway for becoming a building assessor could undermine the clarity and accessibility of the application process for practitioners and industry stakeholders. For practitioners, this uncertainty would translate into significant time and effort spent enquiring about requirements and assessing their own eligibility, creating inefficiencies and potentially discouraging qualified individuals from becoming building assessors.

From a consumer protection perspective, the base case would mean that owners corporations are unable to collectively decide to approve an assessor nominated by the developer. There would also be a lack of clarity for owners corporations and consumers over the types of practitioners who will be deemed by the BPC as appropriate building assessors. In the base case, the Government could face administrative burdens and costs to develop extensive new criteria or alternative pathways for accreditation in the absence of clear regulations.

Overall, the base case is characterised by inefficiency and uncertain processes due to the absence of clear qualifications required to be a qualified person for the role of a building assessor. The base case presents a counterfactual against which the other options are assessed and is therefore awarded a score of 0.



## REQUEST FOR STAKEHOLDER INPUT

The assessment of options in the following sections has been undertaken based on DTP's expectations of the likely benefits from the proposed reforms. DTP invites input from all stakeholders with additional data or information relating to the following analysis to respond to the RIS to refine DTP's understanding of the scale of the impact of the proposed Regulations. DTP would be particularly interested in views on:

6. Any costs to professional associations in establishing and maintaining inspector panels
7. Any anticipated costs to prospective building assessors not captured in the analysis below
8. Any anticipated impacts on the supply of building assessors if eligibility is limited to those holding current registrations of Building Surveyor (Unlimited), Building Inspector (Unlimited) and Domestic Builder (Unlimited)
9. Any anticipated impacts on the availability of Building Surveyors (Unlimited), Building Inspectors (Unlimited), and Domestic Builders (Unlimited) if individuals from these occupations are diverted to become building assessors rather than continuing in their current roles

### 5.3.2. Criterion 1: Simplicity in understanding requirements to become building assessors

This criterion reflects the extent to which the option provides a pathway to becoming a building assessor that is well understood by the industry and practitioners. It also discusses the extent to which the criterion enables consistency in requirements across the industry. Table 5.2 below provides a summary of scores for each option against this criterion and the following sections discuss the rationale for the scoring.

Table 5.2: Summary of MCA scores for Criterion 1 Simplicity in understanding requirements to become building assessors

Criterion	Weighting	Base case	Option 1	Option 2	Option 3
Simplicity in understanding requirements to become building assessors	25%	0	10	6	9
<b>Weighted score</b>		<b>0</b>	<b>2.5</b>	<b>1.5</b>	<b>2.25</b>

#### 5.3.2.1. Option 1: Persons holding current registration in certain categories and classes of building practitioners

Option 1 is awarded a score of 10 for its simplicity in conveying requirements to become a building assessor. It provides significantly more clarity than under the base case by prescribing clear qualifications for building assessors. This removes ambiguity and makes it straightforward for individuals to understand the requirements, unlike the base case, where lack of clear criteria could cause confusion over eligibility. Option 1 restricts eligibility for becoming building assessors to those who already hold particular qualifications, ensuring that entry to the role is based on clear, objective and well-established criteria. This creates a simple and transparent system where requirements are easily communicated and understood by assessors, industry stakeholders and the BPC alike. Option 1 also avoids unnecessary duplication or the creation of new and potentially confusing standards by utilising established training pathways.

#### 5.3.2.2. Option 2: Inspector panels maintained by authorised professional associations

Option 2 receives a score of 6 for simplicity. It is moderately simpler to understand relative to the base case. Option 2 introduces a structured pathway that relies on professional associations to accredit their members as building assessors. This option offers a degree of simplicity for stakeholders as it clearly signals that eligibility is tied to membership of specific professional associations. This makes it relatively straightforward for those seeking to become building assessors to understand their pathway and for external stakeholders to identify who may qualify as building assessors.



This simplicity however comes at a cost of reduced consistency. Under this model, accreditation standards and processes would be determined by each association, which could create some variation in entry requirements, levels of rigour, and assessment methods. While this approach may leverage the existing expertise and networks of authorised professional associations, it also raises the possibility of some confusion and inconsistency in the industry. Developers, OCs and the BPC may find it more difficult to interpret and compare qualifications, particularly if standards differ significantly between associations. As a result, while Option 2 provides a more structured and a simpler pathway than the base case, it lacks the simplicity and uniformity of Option 1, resulting in a lower score than Option 1.

5.3.2.3. Option 3: Persons holding current registration in certain categories and classes of building practitioners, as well as ability for BPC to approve appropriate persons as a qualified person for the role of building assessor:

Option 3 is awarded a score of 9 for its simplicity in conveying requirements to become a building assessor. Option 3 combines the requirement to hold active registrations as under Option 1 but also introduces a government-defined standard for persons who apply for the assessor role, providing a clear and centralised framework for entry. Prospective building assessors applying to the BPC to be considered as an assessor would only need to understand the BPC’s eligibility criteria, which maintains clarity and simplicity in the process. Unlike Option 2, Option 3 does not rely on the diverse and potentially opaque accreditation processes of multiple professional associations, reducing the risk of inconsistency or confusion for applicants and external stakeholders. Option 3 is slightly more complex than Option 1 as it expands the list of occupations that may be eligible, allowing a broader range of professionals with relevant skills to enter the role.

Option 3 therefore sits between Options 1 and 2, as it is slightly more complex than Option 1 but is more consistent and simpler than Option 2.

### 5.3.3. Criterion 2: Consumer protection

This criterion assesses the extent to which this option enables consumer protection through Government oversight over practitioner eligibility and enables consumer protection through a well-qualified building assessor workforce. Table 5.3 presents the summary of scores for the options against this criterion.

Table 5.3: Summary of MCA scores for Criterion 2 Consumer protection

Criterion	Weighting	Base case	Option 1	Option 2	Option 3
Consumer protection	25%	0	7	5	8.5
<b>Weighted score</b>		<b>0</b>	<b>1.75</b>	<b>1.25</b>	<b>2.125</b>

5.3.3.1. Option 1: Persons holding current registration in certain categories and classes of building practitioners

Option 1 receives a score of 7 for its impact on consumer protection. This option offers strong oversight of assessor eligibility through existing, BPC-regulated registration systems. These registrations would help ensure that assessors meet established professional standards, giving the BPC a high level of control over who can become a building assessor. This in turn would support consumer protection by ensuring a qualified and accountable building assessor workforce. The qualification of building assessors would also be straightforward to verify as registration status can be easily checked on the BPC’s website.

Any non-compliance detected by the BPC would also be addressed through existing regulatory channels for practitioner discipline. Option 1 therefore provides a transparent and enforceable system of prescribing building assessor qualification, with limited risks of unqualified building practitioners.

A key drawback of Option 1 however is the restriction of building assessor qualifications to only three classes of building practitioners (Building Surveyor (Unlimited), Building Inspector (Unlimited) and Domestic Builder (Unlimited)). This limits the pool of available building assessors. With fewer qualified professionals available, consumers seeking inspections could experience delays, and the system may struggle to respond quickly to



increases in demand. Additionally, the narrow eligibility criteria may not readily accommodate emerging professional groups or new skill sets, limiting flexibility as industry needs evolve in the future.

Option 1 therefore provides strong regulatory oversight of building assessor eligibility but at the cost of potential supply constraints and reduced adaptability.

#### 5.3.3.2. Option 2: Inspector panels maintained by authorised professional associations

Option 2 is awarded a score of 5 for its impact on consumer protection. It offers moderately greater consumer protection benefits relative to the base case.

This option reduces direct Government oversight by delegating the accreditation of building assessors to authorised professional associations. By drawing on members of professional associations, Option 2 has the potential to increase the overall supply of building assessors relative to Option 1 as a broader range of professionals could access the accreditation pathways. The building assessors could also benefit from the support, training, and professional networks offered by their associations, which could enhance their skills and professional development and improve consumer protection. However, the actual number of assessors entering the workforce would depend on how many associations become authorised accreditors. The effectiveness of Option 2 is therefore highly contingent on the willingness and capacity of professional associations to act as authorised accrediting bodies for building assessors.

While Option 2 could potentially increase the pool of eligible professionals, it introduces a higher risk of fragmented oversight. In the absence of adequate guidance from the Government over requirements for building assessors, there is a risk that each association may develop its own standards and processes with varying levels of rigour. This fragmentation may make it more difficult for external stakeholders such as developers and OCs to understand and verify who is eligible to act as a building assessor. There is also a potential for inconsistency in eligibility criteria which could undermine confidence in the qualification of assessors. As discussed in section 5.1.35.1.3, this option is based on the approach adopted by New South Wales SBBIS. Experience in New South Wales shows that there has been some variability in the quality of building inspector reports and in the accreditation of members whose qualification and experience may not consistently align with the expected standards. Consequently, the removal of direct Government oversight over who may perform building assessor functions introduces a degree of risk, which could potentially reduce the level of protection provided to consumers.

As a result, while Option 2 can expand the workforce and support skills development of building assessors, it may come at the cost of reduced Government oversight and slightly increased risks to consumer protection.

#### 5.3.3.3. Option 3: Persons holding current registration in certain categories and classes of building practitioners, as well as ability for BPC to approve appropriate persons as a qualified person for the role of building assessor:

Option 3 receives a score of 8.5 for its impacts on consumer protections. It provides significantly stronger consumer protection benefits compared to the base case.

Option 3 offers a larger and more flexible pool of assessors when compared with Option 1, whilst maintaining BPC oversight over the additional assessors who are deemed appropriate for the role. This structure enables the BPC to ensure that assessors outside of the pre-defined classes and categories of practitioners meet minimum competency and integrity standards. Unlike Option 1, which restricts eligibility only to a narrow scope of existing qualifications, Option 3 allows for flexibility to adapt the criteria for other assessors over time, accommodating the evolving requirements from the assessor role and changes in industry practices or market needs. This balance of control and adaptability can help maintain a relevantly qualified workforce while supporting consumer protection outcomes. Compared with Option 2, which relies on professional associations and is therefore more vulnerable to fragmented oversight and inconsistent standards, Option 3 provides a higher level of consistency and regulatory control. Additionally, Option 3 provides the broadest pool of potential building assessors of three options considered as it could include a wider range of suitable



occupations and could include practitioners who do not hold current registration (unlike Option 1). This can help improve accessibility and timeliness of inspections, reducing risks to consumers associated with delays or limited assessor availability. Extending the eligibility for becoming building assessors to a wider range of occupations however introduces a slight risk of inconsistency in assessment practices due to varied professional backgrounds.

Option 3 therefore combines clear oversight, adaptability and a wide eligibility base, creating a framework that supports both strong consumer protections and a sustainable supply of assessors.

### 5.3.4. Criterion 3: Costs to industry associations

This criterion assesses the extent to which each option imposes costs on industry associations. Table 5.3 summarises the scores awarded to each option for this criterion.

Table 5.3: Summary of MCA scores for Criterion 3 Costs to industry association

Criterion	Weighting	Base case	Option 1	Option 2	Option 3
Costs to industry associations	20%	0	-2	-7	-1
<b>Weighted score</b>		<b>0</b>	<b>-0.4</b>	<b>-1.4</b>	<b>-0.2</b>

#### 5.3.4.1. Option 1: Persons holding current registration in certain categories and classes of building practitioners

This option receives a score of -2 for costs to professional associations. It is expected to impose only slightly higher costs than the base case.

As professional associations would not be involved in accrediting assessors, Option 1 would not impose direct costs on them for accrediting building assessors. However, associations may experience some indirect costs due to the pool of eligible building assessors being restricted to a narrow class of building practitioners. Practitioners such as building surveyors are already currently in short supply in Victoria.<sup>93</sup> There is therefore a risk that drawing building assessors from an already limited pool of practitioners can exacerbate the shortage of skilled professionals. To mitigate this potential impact, associations may need to invest additional resources into attracting and recruiting new members, providing professional development opportunities to strengthen the pipeline of qualified professionals or developing strategies to retain existing members.

#### 5.3.4.2. Option 2: Inspector panels maintained by authorised professional associations

Option 2 is awarded a score of -7 for its impacts on costs to professional associations. It is anticipated to impose significantly higher costs to associations compared to the base case.

Option 2 places a significant administrative and compliance burden on professional associations, they would be responsible for designing and implementing accreditation processes, assessing the suitability of members, maintaining up-to-date records, and responding to any government audits or oversight requirements. For associations not currently structured to perform such regulatory functions, the costs of building and maintaining the necessary governance, systems, and expertise could be substantial. These obligations could require investment in additional staff, legal and compliance advice, and ongoing training to ensure processes remain robust. Smaller associations may face challenges in sustaining these functions, which could create uneven capacity across the sector and lead to differences in the efficiency and quality of accreditation

<sup>93</sup> Royal Institution of Chartered Surveyors (2024), Addressing critical issues in the Victorian building sector: RICS to be recognised. <<https://www.rics.org/news-insights/addressing-critical-issues-in-the-victorian-building-sector-rics-to-be-recognised>>



between associations. Ultimately, these additional responsibilities could divert resources away from their core member services, such as advocacy, professional development, and networking.

5.3.4.3. Option 3: Persons holding current registration in certain categories and classes of building practitioners, as well as enabling the BPC to approve appropriate persons as a qualified person for the role of building assessor:

Option 3 receives a score of -1 for its costs to professional associations. It is not expected to impose any additional costs to professional associations relative to the base case.

Option 3 requires minimal involvement from industry associations. While associations may continue to play a supportive role by providing advice or guidance to members seeking approval from the BPC to be an eligible assessor, they are not responsible for accrediting or assessing prospective building assessors. As such, costs to associations are expected to be low and largely indirect. The ability for the BPC to approve persons as assessors under Option 3 means that assessors could be drawn from outside the traditional pool of registered surveyors and inspectors, including retired professionals or those not currently maintaining active registrations. This reduces the potential for workforce shortages that could otherwise increase pressure on associations to recruit new members or fill gaps, as may be the case under Option 1. Compared to Option 2, Option 3 represents a significantly lighter regulatory burden for associations, as they are not required to establish or manage accreditation systems, maintain records, or undergo government auditing.

### 5.3.5. Criterion 4: Cost to practitioners

This criterion measures the costs imposed on practitioners to become building assessors. Table 5.4 summarises the scores each option receives for this criterion.

Table 5.4: Summary of MCA scores for Criterion 4 Costs to practitioners

Criterion	Weighting	Base case	Option 1	Option 2	Option 3
Cost to practitioners	20%	0	-2	-2	-2.5
<b>Weighted score</b>		<b>0</b>	<b>-0.4</b>	<b>-0.4</b>	<b>-0.5</b>

5.3.5.1. Option 1: Persons holding current registration in certain categories and classes of building practitioners

Option 1 is awarded a score of -2 for its impacts on costs to building practitioners. It will impose slightly higher costs than under the base case.

Option 1 limits eligibility for building assessors to individuals who already possess current registration in three practitioner classes (Building Surveyor (Unlimited), Building Inspector (Unlimited) and Domestic Builder (Unlimited)). Individuals already holding these qualifications would incur minimal additional costs when transitioning to a building assessor role as no further formal education or registration would be required. The cost impacts of Option 1 are however driven by costs to practitioners who do not hold the required qualifications. For these prospective entrants, the process of obtaining the necessary registration would potentially incur costs including formal education, registration fees, and ongoing compliance obligations. This would result in a notably higher financial burden than under the base case. As there is currently no information available on the number of practitioners who would be interested in becoming building assessors but do not hold the required qualifications, the actual scale of impact on practitioner costs cannot be determined.

5.3.5.2. Option 2: Inspector panels maintained by authorised professional associations

Option 2 also receives a score of -2 for costs to practitioners as it is expected to impose slightly higher costs to building practitioners than the base case.



Under Option 2, prospective building assessors will be required to hold membership with an authorised professional association. The association would be responsible for accrediting the practitioner. This approach would introduce some costs to practitioners due to the time and effort required to apply to become building assessors. It is expected that these costs would be relatively minor. As with Option 1, costs under Option 2 would be largely due to potential cost impacts for prospective building assessors who are not members of the professional associations. Non-members could face costs such as joining fees, time and effort for applying to be members, and possibly additional training or assessment requirements, which can cumulatively create a financial and logistical barrier to entry.

5.3.5.3. Option 3: Persons holding current registration in certain categories and classes of building practitioners, as well as enabling the BPC to approve appropriately qualified persons for the role of building assessor:

Option 3 receives a score of -2.5 for costs to practitioners. It will impose moderately higher costs than under the base case.

Option 3 requires certain practitioners who do not hold an active registration under the prescribed categories and classes of building practitioner to satisfy government-defined suitability criteria and apply for inclusion on a BPC-maintained panel. This process could involve steps such as completing documentation, providing evidence of qualifications or experience, and possibly undergoing an assessment or review. These requirements would likely apply to all practitioners, even those with current registrations or memberships of professional associations. Option 3 therefore has a slightly greater cost impact than the base case and Options 1 and 2.

### 5.3.6. Criterion 5: Costs to Government

This criterion measures the extent to which each option imposes costs to the Government. Table 5.5 provides a summary of the MCA scores assigned to each option for this criterion.

Table 5.5: Summary of MCA scores for Criterion 5 Costs to Government

Criterion	Weighting	Base case	Option 1	Option 2	Option 3
Cost to Government	10%	0	-2	-1	-3
<b>Weighted score</b>		<b>0</b>	<b>-0.2</b>	<b>-0.1</b>	<b>-0.3</b>

5.3.6.1. Option 1: Persons holding current registration in certain categories and classes of building practitioners

This option receives a score of -3 for costs imposed on Government. Option 1 will impose marginally higher costs to the Government relative to the base case.

The Government can use its existing licensing and registration frameworks that are already in place to accredit building assessors as only current registration holders will be eligible under Option 1. It is expected that Option 1 would require only minor updates to the administrative systems, processes or supporting guidance materials. Option 1 avoids the need to establish a new regulatory structure or create additional oversight mechanisms, making this a low-cost and efficient approach to managing building assessor eligibility. DTP advises that such costs would be covered through existing fees collected by the BPC and would not impose additional cost burden to the Government. Furthermore, practitioners remain subject to the existing disciplinary, compliance, and enforcement powers of the BPC, which ensures that misconduct or poor performance can be addressed without duplicating regulatory effort.

One potential source for costs to Government under Option 1 would be the need to amend the Regulations every time BPC would need to amend the list of practitioner classes eligible to become building assessors.

Overall, this option provides a streamlined, cost-effective way of ensuring accountability while maintaining appropriate oversight of assessors.



#### 5.3.6.2. Option 2: Inspector panels maintained by authorised professional associations

Option 2 receives a score of -1 for costs to Government. It will impose only slightly higher costs to the Government compared to the base case.

Under Option 2, the primary administrative and oversight responsibility for building assessors would rest with professional associations, shifting much of the operational burden away from the Government. Associations would be responsible for assessing applications, monitoring ongoing eligibility, and ensuring that their members meet the prescribed standards of competence and conduct. The Government's role would be largely confined to defining the core requirements of the building assessor role through regulation or guidance and providing light-touch oversight to ensure consistency and integrity in how associations carry out these responsibilities. This oversight could involve periodic reviews and audits or the capacity to intervene where systemic issues are identified but would not require extensive resourcing or new institutional arrangements.

#### 5.3.6.3. Option 3: Persons holding current registration in certain categories and classes of building practitioners, as well as enabling the BPC to approve appropriately qualified persons for the role of building assessor:

Option 3 receives a score of -3 for the costs it would impose on the Government. It would result in moderate cost increases for the Government relative to the base case.

Option 3 imposes the highest costs across the three options. Under this option, Government would be required to design, implement, and administer a comprehensive suitability framework for building assessors who apply to the BPC to be considered as an eligible assessor. This would involve the direct assessment of applicants against defined eligibility criteria, the establishment and ongoing maintenance of a centralised panel of approved assessors, and the regular review of assessor performance to ensure continued compliance. These functions would demand additional administrative resources and systems development, representing a more complex and resource-intensive role for Government compared to the other options.

While this approach provides a high level of oversight and assurance, it also entails substantially higher ongoing costs for the Government. However, as with Option 1, DTP expects existing fees and revenue sources to cover the BPC's incremental costs, thereby moderating the cost impact to the Government from this option. Option 3 therefore only scores slightly higher for costs to Government than Option 1.

### 5.4. Identification of the preferred option

Table 5.6 presents a summary of the MCA scores for building assessor qualifications. The MCA identifies Option 3 as the preferred option as it results in the highest weighted score among all options considered. Option 3 significant consumer protection benefits through its capacity to enable a larger, more diverse pool of building assessors. By widening eligibility to a wider range of professions, including those without current registrations, Option 3 can increase the available pool of assessors without exacerbating supply shortages of professional in other occupations such as building surveyors. With more assessors in the market, consumers are less likely to experience delays in service, and the risk of workforce shortages is reduced, directly supporting the quality and reliability of consumer outcomes.

The BPC's oversight over the approvals process for persons applying to be an assessor ensures that all assessors, regardless of background, meet minimum competency standards. While Option 3 introduces moderate costs for practitioners and government due to the establishment and ongoing management of eligibility panels, these are outweighed by the benefits of improved supply and resilience within the assessor workforce. The approach also minimises regulatory burden for professional associations, as they are not required to manage accreditation or compliance.



Table 5.6: Summary of MCA scores for building assessor qualifications

Criterion	Weighting	Base case	Option 1	Option 2	Option 3
<b>Benefits</b>					
Simplicity in understanding the requirements to become a building assessor	25%	0	10	6	9
Improved consumer protection	25%	0	7	5	8.5
<b>Costs</b>					
Costs to industry associations	20%	0	-2	-7	-1
Costs to practitioners	20%	0	-2	-2	-2.5
Costs to Government	10%	0	-2	-1	-3
<b>Total weighted score</b>		<b>0</b>	<b>3.1</b>	<b>0.85</b>	<b>3.40</b>

## 6. DBS: Other Regulations

This section discusses the fees that will be introduced through the Regulations. It also discusses new Regulations that will define the scope of the DBS.

### 6.1. Fees proposed to be introduced through the Regulations

The Buyer Protections Act allows the Regulations to prescribe fees to cover the costs of some regulatory actions to be performed by the BPC in relation to the developer bond scheme. It is proposed that the Regulations will prescribe fees to cover BPC costs relating to the following three functions:

- appointment of a building assessor when required.
- considering exemption from the requirement to prepare a final inspection report lodging notification of the issue of the developer bond.
- developers are required to notify the BPC when a developer bond has been issued, which must be accompanied by a fee.

The estimated total annual revenue from all DBS related fees collected by the BPC is approximately \$930,460. These proposed fees are discussed respectively in sections 6.1.1 to 6.1.3. The proposed fees have not been subject to detailed analysis as they are not expected to impose a significant financial burden on the industry.

#### 6.1.1. Prescribed fee for BPC appointment of building assessor

The Buyer Protections Act includes a provision allowing the BPC to appoint a building assessor under some circumstances. These include instances where the OC does not approve the developer's nominated building assessor or where the developer has not appointed one before the first OC meeting.

The BPC will incur a range of costs in appointing a building assessor, including:

- Administrative costs associated with facilitating lodgement and processing and assessing applications to appoint an assessor.
- Making enquiries regarding the availability of building assessors and potentially seeking quotes from assessors.
- Administrative costs involved in engaging the building assessor and communicating the appointment to the involved parties.

The Regulations will prescribe that the fees payable by a developer for the appointment of a building assessor by the BPC will be set at 98.16 fee units (\$1,650 in 2025-26). As the bond scheme has not yet commenced



operation, it is not currently known how often the BPC will be required to appoint a building assessor. Consequently, the expected burden on the industry from this proposed fee cannot be estimated with complete accuracy. However, an illustrative case study is included in this section to provide an example of the potential scale of costs.

Figure 6.1: Illustrative impact of feasible costs to developers from the proposed fee for BPC to appoint a building assessor

#### **ILLUSTRATIVE IMPACT OF THE PROPOSED FEE FOR BPC TO APPOINT A BUILDING ASSESSOR**

Every year, approximately 550 Class 2 buildings are constructed in Victoria.<sup>94</sup> Of these, it is estimated that 400 buildings are four storeys and above.<sup>95</sup> These buildings would be subject to the DBS requirement. For this example, it is assumed that 50 per cent of the new buildings would require the BPC to appoint a building assessor. This figure has been selected as a conservative estimate. The BPC would therefore be required to appoint building assessors for 200 Class 2 buildings each year.

At a cost of \$1,650 per appointment, developers would incur fees of approximately \$330,000 per year in aggregate.

Therefore, it is not anticipated that the proposed fees will add a significant cost burden to the industry overall. It is also important to consider the proposed fee in the context of the total costs associated with developing a Class 2 building four storeys and above. Given the average cost of constructing a single lot was over \$461,000 in 2024<sup>96</sup>, it is not expected that proposed fee of approximately \$1,650 would have a material impact on developers (making up less than one per cent of the cost of a single lot).

#### **6.1.2. Prescribed fee for BPC consideration of an application for exemption from the final report**

The Buyer Protections Act allows the BPC to grant developers an exemption from the requirement to arrange a final inspection and report by the building assessor if no reportable defective building work is identified in the preliminary inspection. The developer is required to apply to the BPC to gain an exemption.

The Buyer Protections Act also includes a provision for the exemption application to be accompanied by a prescribed fee.

This fee will be set at 6.84 fee units (\$115 in 2025-26) per application. As with the appointment fee, the number of final report exemption applications the BPC will receive each year remains uncertain. However, as is discussed in Chapter 2, defects in apartment buildings are very common. DTP therefore expects that a very small proportion of buildings will be eligible for an exemption.

<sup>94</sup> Department of Transport and Planning (2025), Building Amendment (Building Manuals and Mandatory Inspections) Regulations 2025 Regulatory Impact Statement. <<https://www.vic.gov.au/sites/default/files/2025-04/Building-Amendment-2025-Regulatory-Impact-Statement.pdf>>

<sup>95</sup> Deloitte analysis of building permit data.

<sup>96</sup> Australian Bureau of Statistics (2025), Building Activity Australia. <<https://www.abs.gov.au/statistics/industry/building-and-construction/building-activity-australia/latest-release>>



Figure 6.2: Illustrative impact of feasible costs to developers from the proposed fee for applying for an exemption from final inspection report

### **ILLUSTRATIVE IMPACT OF THE PROPOSED FEE FOR EXEMPTION FROM FINAL INSPECTION REPORT**

For this example, DTP anticipates that only one per cent of in-scope Class 2 buildings will apply for an exemption from the requirement to prepare a final report each year. Therefore, of the 400 new buildings that prepare a preliminary report, only 4 buildings will apply for an exemption from final report.

With each eligible building paying a fee of approximately \$115 per application, the total burden across the industry from the proposed fee is only expected to be approximately \$460 per year in aggregate.

### **6.1.3. Prescribed developer bond lodgement fee**

The Buyer Protections Act requires developers to notify the BPC when a developer bond has been issued and stipulates that the notification must be accompanied by a prescribed fee. This fee, paid by the developer, will cover the administrative costs incurred by the BPC in assessing the bond lodgement notification and updating their internal records. The Regulations will prescribe this fee to be 89.23 fee units (\$1,500 in 2025-26) per bond.

Figure 6.3: Illustrative impact of feasible costs to developers from the proposed bond lodgement fee

### **Illustrative impact of the proposed bond lodgement fee**

An indicative estimate of the proposed bond lodgement fee is calculated assuming that 400 new Class 2 apartment buildings are constructed each year and they each pay a \$1,500 bond lodgement fee.

In this scenario, the annual impact to developers would be \$600,000 each year in aggregate. While this equates to the construction cost of under two lots across Victoria, at the level of an individual bond, it amounts to less than 1 per cent of the cost of building a single apartment within a development.

The proposed fee is therefore not expected to impose significant additional financial impacts on developers.

## **6.2. Other proposed Regulations which define the operation and scope of the DBS**

### **6.2.1. Maturity date of the bond to be 12 months after the date on which the building assessor provides the final report to the BPC**

The Regulations will prescribe that a developer bond will mature 12 months from the date on which the building assessor provides a copy of the final report for the residential apartment building to the BPC. As is discussed in section 1.2.1, the building assessor is required to undertake the final inspection and prepare a final report between 21 to 24 months after the issuing of the occupancy permit. Any reportable defective building work (see Chapter 4) identified in the final inspection report forms the basis of an OC's claim on the developer bond.

Delays could be encountered in the claims process in instances where the developer disputes the amount being claimed on the bond by the OC, and the BPC decides to commission an independent report to resolve the dispute. Another possible delay could arise if the OC is delayed in obtaining quotes for the rectification of defective work identified in the final report, especially for any complex repairs.

The bond must therefore remain active for long enough for OCs to lodge claims to fund rectifications, after accounting for potential delays. While the Buyer Protections Act does not set a timeframe for the maturity for the developer bond, it enables the regulations to prescribe one. This duration needs to balance consumer



protection and giving an owners corporation adequate time to make a claim, with providing developers an ability to finance other projects, noting that longer holding periods for the developer bond may impact on the developer's ability to finance other projects. Considering this trade-off, a maturity period of twelve months after the provision of the assessor's final report to the BPC has been proposed. This timeframe is expected to be sufficient to allow the claims process to play out, with buffers built in to account for any potential delays.<sup>97</sup> It is noted that the Buyer Protections Act allows for the developer to apply to the BPC to have the developer bond be cancelled, provided that the developer has obtained the consent of the relevant owners corporation, and that the developer does not own the majority of lots in the residential apartment building.

In addition, DTP recognises that any applications for review of a decision, including internal review at the BPC, or through VCAT, need to be factored into the maturity period. The bond should not be released while the ordinary scheme process is held up under a review. Accordingly, the regulations provide that if any review of a reviewable decision or a review decision occurs, additional time will be provided to ensure that the bond remains active while that review is undertaken, and for a short period after the review is decided in order to allow the claims process to conclude.

### **6.2.2. DTP also considered maturity periods of 18 months after final report provided by assessor to the BPC, and 42 months (3.5 years) after the occupancy permit is issued for a residential apartment building.**

DTP also considered a maturity date of 18 months after the provision of the final report by the assessor, but this was viewed as excessive. A maturity date of 42 months (3.5 years) after the issuing of the occupancy permit for the residential apartment building was also considered. If the scheme proceeds along the default statutory timeframes, this would provide the owners corporation with roughly 18 months after the completion of the assessor's final inspection and report to make a claim on the bond. However, this option would also hold the bond for a longer period than the preferred option, as it accounts for delays that may occur prior to the delivery of the assessor's final report which may not materialise. Consequently, DTP favoured a maturity period of 12 months after the provision of the assessor's final report to the BPC.

### **6.2.3. Calculating total build cost**

Calculating the total build cost is a crucial step in the DBS process as this informs the value of the bond to be held. The Buyer Protections Act states that the regulations are to prescribe the method for calculating the total build cost for the purposes of the developer bond. The proposed Regulations will prescribe that the total build cost provided must align with the method employed by an RBS to estimate the cost of building work for the purposes of the building permit levy (BPL)<sup>98</sup> that is payable on the building. Where a mixed-use residential apartment building contains other non-domestic lots, the total build cost will be required to factor in the costs of constructing all lot types such as commercial, non-residential or social housing lots. This approach has been chosen by DTP because defects in non-domestic lots can directly affect apartment consumers by impacting shared services, amenities, or infrastructure within the building.

This approach will therefore consider the cost of constructing the building as a whole. A benefit of using this approach is that it will promote consistency in the calculation of the bond and the calculation of the building permit levy.

It is also acknowledged that there could be variations between the two cost figures in some instances where the scope of the building work forming the basis for the levy calculation is different from that of the DBS. This could be the case where a development features multiple buildings, of which only some building(s) require a

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<sup>97</sup> Potential sources of delays considered include delays in the preliminary inspection, allowing the builder additional time to complete rectifications, commissioning an independent report in the event of a dispute, or obtaining quotes for rectification work.

<sup>98</sup> The BPL is required to be paid before a building permit can be issued for building works with a value of over \$10,000.



developer bond to be issued, but all of which may be included in the cost of building work for the BPL. For the DBS, it is proposed that the cost of constructing any building that is exempt from the scheme be excluded from the total build cost.

An option considered by DTP but not progressed was prescribing a list of items in the Regulations that a developer or RBS must include or exclude when calculating the total build cost for a residential apartment building. Items considered to be prescribed for inclusion in the calculation of the total build cost, which mirrors that used in the New South Wales SBBIS for instances where a contract price is not available, includes:

- Construction and fit out costs, not including appliance and prime cost items
- Demolition and site preparation
- Excavation
- Car parking
- Costs of the property that is included in the property plan including landscaping, pools, fencing and gates
- Professional fees
- Taxes applied in the calculation of the as-built construction.

Compared to the preferred option of aligning the total build cost to estimate of cost of the building work for the purposes of the BPL, this option is more prescriptive and provides upfront clarity and certainty over the costs to be included when calculating the cost of building work for the developer bond. It also allows for future adjustments to the prescribed items through regulatory amendments. Under this option too, the total build cost would be restricted to be residential apartment building and would not include costs of any other separate buildings that are not in scope of the DBS.

A key drawback is that this method introduces a calculation approach distinct from that used for the BPL, which could potentially lead to inconsistencies in reported costs for similar construction work.

#### **6.2.4. Serious defects to building work in mixed use residential apartment buildings**

Building classification is determined by its intended use under the National Construction Code. A building may have multiple classifications if different parts serve different purposes, unless a part occupies no more than 10 per cent of a storey's floor area. In this case, it may be treated as ancillary to the main building and adopt the storey's main classification. Accordingly, residential apartment buildings may include non-residential lots such as cafes and shops within the scope of the DBS. This is because either they are deemed ancillary and adopt the Class 2 classification, or because the building work was carried out in connection with the residential apartment building. Therefore, any serious defects in non-residential lots will be in scope of the DBS as issues in non-residential lots can have implications for common property or domestic lots within the buildings. However, a higher defect threshold has been included as the primary purpose of the scheme to protect apartment owners. The Buyer Protections Act defines a serious defect as:

- A defect in a major building element that is caused by non-compliant work.
- A defect in the building work or in a building product used to construct the building work that is attributed to defective design, defective or non-compliant building work, or defective materials, and has caused or is likely to cause the building to be uninhabitable or prevent it from being used for its intended purpose, or cause the building or part of the building to be destroyed or to be under the threat of collapse.
- The use of unsafe building product; or
- A defect that is prescribed for the purposes of this definition.

#### **6.2.5. Notification to the BPC that a bond has been issued**

The Buyer Protections Act requires developers to notify the BPC within seven days after a bond has been issued. This notice must include relevant details about the bond, including the total build cost of the residential apartment building, the required bond amount, the amount actually secured, and any other



information prescribed by the regulations. The proposed regulations will prescribe the following further information to be included in the notice to the BPC that a bond has been issued:

- Registration number of the registered plan of strata subdivision for the residential apartment building.
- Street address of any building to which the bond relates.
- Name and address of the relevant building surveyor (RBS) for any building work the bond relates to.
- An address for service of notices to the developer.
- An address for service of notices to the OC for the residential apartment building (where applicable).<sup>99</sup>
- The contract or contracts between the developer and the builder relating to the building work.
- A copy of any other documents relevant to the determination of the total build cost.

### **6.2.6. Conduct of preliminary and final inspections**

Building assessors must conduct preliminary and final inspections in the manner prescribed by regulations and must prepare reports containing details about the reportable defective building work along with causes of the defect (if known) and any other prescribed information. The proposed regulations will state that the manner in which the inspections are conducted, and the matters to be contained in the preliminary and final report must be in accordance with guidelines published by the BPC on their website. The BPC will develop and approve guidelines for the conduct of inspections. The associated preliminary and final inspection reports would also be required to be in a form template developed and approved by the BPC. This approach would enable consistency across the industry in the manner in which inspections are conducted, and the information contained in the inspection reports. Building assessors would have certainty about how they are expected to carry out their functions. It is expected that OCs and the BPC would also benefit from this approach as both parties would be assured of receiving all the required and relevant information about the inspections. Outlining the requirements in guidelines would also make it easier for the BPC to update them as required without a lengthy regulatory amendment process.

### **6.2.7. Exemption from the DBS requirements for certain build to rent developments and public and community housing developments**

The Buyer Protections Act includes heads of power that enable the regulations to exempt certain types of residential apartment buildings from the DBS. The Victorian Government has proposed exempting certain build to rent and social housing developments from the requirement to issue developer bonds. A bond will be required to be lodged for all other Class 2 residential apartment buildings. Where there is social housing lots in a residential apartment building that also contain one or more lots for sale, that entire apartment building will also be covered by the DBS.

#### **6.2.7.1. The treatment of build to rent (BTR) apartment developments**

Build to rent (BTR) developments are designed exclusively for long-term rental, with developers retaining ownership and responsibility for ongoing property maintenance and leasing. In Victoria, BTR developments receive a 50 per cent reduction on land tax for up to 30 years and are exempt from the absentee owner surcharge during this period if they meet nine prescribed requirements.<sup>100</sup> It is proposed that BTR developments that meet these eligibility requirements be exempt from the requirement for the DBS. Exempting these projects from the DBS is appropriate because the developer will retain ownership over the building. These building projects will be exempted from the scheme through the head of power to exempt developers from the requirement to issue a developer bond to be provided by section 137ZP of the *Building Act*

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<sup>99</sup> It is acknowledged that in some situations an OC may not be existent within 7 days after the issuing of the developer bond. This is because the developer bond is required to be executed at any time prior to applying for an occupancy permit, which could occur prior to the plan of subdivision being registered (which automatically creates an OC).

<sup>100</sup> State Revenue Office, Land tax discount for build to rent developments. <[77](https://www.sro.vic.gov.au/land-tax/discount-build-rent-developments#:~:text=Eligible%20BTR%20developments%20are%20entitled,are%20known%20as%20BTR%20benefits.></a></p></div><div data-bbox=)



1993. Additionally, BTR developments are not typically subdivided before occupation, so no OC is created. The presence of an OC is a prerequisite for the DBS's operation. Therefore, a decision has been made by DTP to exempt BTR developments from the DBS.

#### **6.2.7.2. The treatment of social housing developments**

Social housing in Victoria includes public housing, owned and managed by the Victorian Government, and community housing, managed by not-for-profit organisations registered with the Housing Registrar. Both models operate under a single ownership structure, providing long-term rentals without selling individual lots to private buyers. Public housing is government owned and maintained, while community housing organisations receive state and Commonwealth support to deliver affordable housing for low-income or special needs tenants. Since neither model involves private ownership of lots, the same rationale for exempting BTR developments from DBS requirements applies to social housing. The owner's ongoing responsibility for maintenance, the absence of private lot sales, and the single ownership structure mean the DBS offers no additional protection or benefit to consumers.

#### **6.2.7.3. The treatment of Homes Victoria developments except those where private housing lots are intended to be sold to the public**

Homes Victoria manages Victoria's social housing portfolio. There are two different types of housing developments undertaken by the Victorian Government through Homes Victoria: the Ground Lease Model and the Public Housing Renewal Program.

Under the Ground Lease Model, Homes Victoria leases land to a consortium to build, operate and maintain housing on the site for 40 years. The land, and all homes, is then returned to public ownership which means there is no sale of public land. It is considered appropriate that these developments are exempt from the DBS as the lots within the development are not sold to the private market.

Under the Public Housing Renewal Program, the Government partners with private or not-for-profit developers to redevelop public housing sites while retaining land ownership. The redeveloped buildings then provide a mix of private and public housing. Title is transferred only when private dwellings are sold, with the Government receiving a share of sale proceeds (reflecting land value) to help fund the construction of additional public homes.

It is proposed that Class 2 buildings developed by or on behalf of Homes Victoria and where the developer intends to offer one or more lots for sale are to be subject to the requirements of the DBS.

DTP considered two other options relating to exemptions for Homes Victoria developments. One option considered but not progressed was to have the DBS apply only to lots within Homes Victoria developments that would be sold to consumers. The cost of building work for the purposes of issuing the developer bond would be calculated only for these lots. This would ensure private owners in these developments would receive the same protections that owners in private apartment buildings would receive. This option differs from the preferred option where the entire development is subject to the DBS.

Another option considered but not progressed was to exempt all Class 2 buildings developed by Homes Victoria, regardless of whether they intend to sell one or more lots. Under this option, developments made by or on behalf of Homes Victoria may seek an exemption from the DBS from the Minister for Housing and Building. Where an exemption is granted, private lot owners would not be covered by the DBS at all.

#### **6.2.8. Transition period to exempt projects with building permits issued prior to 1 July 2027**

The Buyer Protections Act enables regulations to prescribe a transition period before the DBS commences. Without such a period, the bond requirement would take effect immediately upon proclamation of Part 6 of



the Buyer Protections Act (expected when the regulations are made).<sup>101</sup> Given the long lead times for Class 2 buildings and the need to arrange project financing well before construction commences, developers should be provided with adequate notice to accommodate the new requirements. In setting a transition period, the timeframe and costs to developers must be balanced against the bond scheme's policy objective of closing a gap in consumer protections for apartment owners. A longer transition reduces the number of projects subject to the scheme and, in turn, the number of owners who benefit from its protections.

To manage this balance, the regulations will prescribe an exemption for residential apartment building projects of four storeys or more with building permits issued before 1 July 2027, giving developers sufficient time to prepare for compliance. Linking the transition period to the building permit stage will minimise financial risks for projects already in planning or construction, where financing has been finalised. It will also provide developers with certainty to plan for the bond requirement and give consumers clarity around the operational commencement of the scheme.

DTP considered two further regulatory options relating to the transition period exempting certain developments from the requirement to lodge a developer bond. One option proposed that the developer bond be executed prior to occupancy permit (OP) applications made from or after 1 January 2028. While this option would provide industry with a reasonable amount of time to prepare for the requirement to lodge the two per cent bond, it could present a risk for projects that have been in planning over several years. The requirement to lodge the bond may impact the financial feasibility of these projects and may also have flow-on impacts to a developer's ability to finance future apartment developments. A third option considered by DTP but not progressed was to prescribe the immediate commencement of the DBS without a transition period. Under this option, the immediate commencement of the DBS would deliver benefits earlier to consumers as all eligible residential apartment buildings seeking an occupancy permit would be covered from the date the legislative provisions are proclaimed. This however comes at a cost to industry. The lack of lead time may challenge developers, particularly those with projects long in planning, as the immediate bond requirement could affect financial feasibility and constrain future project delivery, potentially impacting the supply of new apartment dwellings. As such, these options were not progressed further, and a lead time linking the transition period to building permits issued after 1 July 2027 was preferred.

### **6.2.9. Information to be given by the developer to the building assessor**

The Buyer Protections Act requires that within 28 days of the appointment of the building assessor, the developer must provide the assessor with copies of any documents considered at the first OC meeting that identify defective building work. The developer must also provide any other documents in their possession that identify defective building work to the building assessor. Additionally, the OC, the BPC, the municipal building surveyor, the relevant building surveyor and the relevant council are authorised to provide any documents identifying defective building work to the building assessor.

The legislation enables regulations to prescribe additional documentation to be provided to the building assessor. To ensure that building assessors are sufficiently informed, the proposed regulations will prescribe that the building assessor must be provided with a copy of the following documents:

- (a) a copy of the application for the building permit for the residential apartment building;
- (b) a copy of the documents required under regulation 24(3) of the Building Regulations 2018<sup>i</sup> to accompany the application for the building permit;
- (c) a copy of the information required under regulation 29 of the Building Regulations 2018 to be submitted in relation to the application for the building permit;

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<sup>101</sup> Part 6 of the Buyer Protections Act contains provisions relating to the developer bond scheme.



- (d) a copy of any report and consent of a reporting authority relating to a matter referred to in the following—
  - (i) regulation 31(a) or (c) of the Building Regulations 2018; or
  - (ii) items 25 to 30 of Part 2 of Schedule 5 to the Building Regulations 2018;
- (e) any computations and reports lodged with the application for the building permit before the building permit was issued;
- (f) a copy of the building permit for the construction of the residential apartment building;
- (g) a copy of any determination of a performance solution recorded by the relevant building surveyor under regulation 38 of the Building Regulations 2018 in relation to the construction of the residential apartment building;
- (h) a copy of the documents referred to in regulation 39(1)(b) of the Building Regulations 2018;
- (i) a copy of the documents given to the relevant council by the relevant building surveyor under section 30(1A) of the Act;
- (j) a copy of any protection work notice required to be served under section 84 of the Act including the accompanying documents referred to in regulation 113 of the Building Regulations 2018;
- (k) a copy of any building notice referred to in section 106 of the Act relating to the residential apartment building;
- (l) a copy of any building order made under section 111, 112 or 113 of the Act in relation to the residential apartment building;
- (m) a copy of the application for the occupancy permit for the residential apartment building;
- (n) any documents required under regulation 186(2)(b) of the Building Regulations 2018 to accompany the application for the occupancy permit;
- (o) a copy of any report and consent required under regulation 187 of the Building Regulations 2018;
- (p) a copy of a list of assets and information (if any) relating to assets on the common property of the residential apartment building;
- (q) a copy of any warranty on any matter that relates to the residential apartment building for which an unlimited owners corporation is responsible, other than any consumer right or warranty arising under an Act, including an Act of the Commonwealth.

The ready availability of comprehensive documentation will assist building assessors in identifying building defects early in the building's life.



## 7. Impact analysis of the proposed DBS Regulations

This section provides an illustrative example of the costs and benefits of the proposed DBS Regulations.

### 7.1. Approach to impact analysis

As mentioned in Chapter 3, the RIS seeks to quantify certain costs to provide a clearer understanding of their potential size and scale across different stakeholder groups (see section 3.3). These estimates are informed by a mix of available data, historical trends and comparable policy frameworks in other jurisdictions. While these calculations aim to provide meaningful insights, they are not intended to serve as precise forecasts but rather as illustrative examples that help contextualise potential impacts of the DBS scheme.

Providing cost estimates within the RIS not only provides an approximate indication of the financial burden imposed by the DBS but also helps to illustrate how this burden is distributed or transferred among different stakeholder groups. This example focuses on the costs to consumers (lot owners and OCs) and industry (developers). In this case study, a lot refers to a single apartment. This example does not include costs to the Government, as the BPC has indicated that it is currently unable to estimate these costs. This is due to uncertainties surrounding the scheme's implementation and associated administrative requirements.

In addition, break-even analysis is applied to explore the potential scale of benefits within these specific contexts. This analysis identifies the points at which the benefits generated by the proposed measures would offset the associated costs, illustrating the conditions under which the proposal becomes economically viable or beneficial for stakeholders (see Section 3.4). Together, the illustrative case studies and break-even analysis provide a balanced perspective on both the potential costs and benefits, offering valuable insights into how the regulations contribute to the effective implementation of the scheme.

Throughout this chapter, areas of uncertainty surrounding any illustrative impacts are explicitly highlighted to ensure transparency and to acknowledge the limitations of available data. Where uncertainty exists (for example the frequency of claims under the DBS or the administrative demands on stakeholders) the RIS poses targeted questions for stakeholders, seeking input to validate assumptions, refine estimates or identify additional considerations regarding the potential impact of the DBS.



## REQUEST FOR STAKEHOLDER INPUT

DTP welcomes all stakeholders with any data or information on the likely costs and benefits of the DBS to provide a submission as part of the RIS consultation process. In particular, DTP would welcome input on the following points for residential apartment buildings of four storeys and above:

10. Average number of defects in a Class 2 buildings of four storeys and above
11. Administrative burden and costs for owners corporations and owners corporation managers in arranging for defect rectification in common property and private lots
12. Frequency and allocation of defect rectification costs among developers, owners corporations, and builders
13. Frequency with which developers voluntarily rectify defective and non-compliant work
14. Dispute resolution costs incurred by consumers, owners corporations, builders and developers related to defective and non-compliant work
15. Upfront costs such as internal systems update or staff training likely to be incurred by developers in preparing for the DBS
16. Any additional costs expected to be incurred by consumers, developers and developers that have not been considered in the example
17. Any additional benefits expected to be gained from the DBS that have not been considered in the RIS

## 7.2. The costs of the proposed DBS Regulations to consumers and industry

### 7.2.1. Estimated cost of rectifying defects under the base case

In the base case, lot owners in Class 2 buildings of four storeys and above face significant challenges in recovering costs associated with rectifying defects. Existing consumer protection measures, such as DBI, do not extend to these buildings, leaving owners with limited recourse for financial recovery. Research by the Centre for International Economics (CIE), estimated that consumers face three types of costs when seeking to rectify defects in their lots. These costs, and their associated values, are presented in Table 7.1.

Table 7.1: Components of defect rectification costs (rounded to the nearest 100).

Cost category	Description	Cost for lot owners (per defect)
Rectification cost	This represents the cost incurred for rectifying and repairing defects, including contributions to OC where applicable	\$9,300
Time cost	This is the opportunity cost of time the lot owner would need to spend on achieving rectification. This includes time spent on activities such as organising repairs, investigating problems, liaising with experts, and attending OC meetings.	\$1,700*
Other costs	This category includes costs such as lost rental income, temporary accommodation costs, legal costs, sourcing technical/engineering reports, and transport costs	\$2,000
<b>Total</b>		<b>\$13,000</b>

Source: The Centre for International Economics (2021): Building Confidence Report. \*Note: The report stated that the lot owners spent 46 hours getting a defect rectified. The report valued this time at \$19.55 per hour which was half of the average hourly earnings for all employees in Australia at the time. The



analysis in this case study values an individual's time at \$37 based on the value of leisure time as determined by the Office of Impact Analysis.<sup>102</sup> The total cost per defect is therefore higher in this case study than the CIE report.

Currently, lot owners bear the biggest cost burden in getting defects rectified, whether out-of-pocket, through their OC or by pursuing legal action against the developer or builder. These costs include not only the direct expenses associated with defect rectification (approximately \$10,000 per lot), but also a range of additional financial and administrative costs. This includes the opportunity cost of time spent trying to get the defect rectified through activities such as organising repairs (approximately \$2,000 per lot) as well as other costs such as legal costs or securing expert investigation reports (approximately \$2,000 in total per lot).

Table 7.2 outlines how these costs are distributed for each defect rectification method under the base case, as well as the likelihood that a defect will be rectified through each pathway.

Table 7.2: Method for defect rectification, per defect

Method	Defect percentage	Costs incurred by owners	Costs incurred by developers
OC or OC's insurance	43%	\$11,000 in rectification and time costs	-
Builder, developer or home warranty insurance	30%	\$2,000 in time costs	\$10,00 in rectification costs
Owners taking the builder or developer to dispute resolution	24%	\$9,000 in rectification, time and other costs	\$7,000 in rectification and other costs
No rectification achieved*	3%	\$13,000 in rectification, time and other costs	-

Source: The Centre for International Economics (2021): Building Confidence Report.

Note: These figures have not been adjusted for inflation.

\*This category represents the instances where the defect has not been rectified. While no actual money would have been spent on rectification in this instance, the cost has been included to represent the liability for fixing the defect.

It is estimated that 400 new Class 2 buildings of four storeys and above are constructed in Victoria each year<sup>103</sup>, each containing an average of 66 lots.<sup>104</sup> According to a report by the Centre for International Economics (CIE), Victorian apartments typically exhibit two defects per apartment lot on average.<sup>105</sup> Consequently, a Class 2 building comprising 66 lots would be expected to have 132 defects.

Table 7.3 below shows the expected costs of defect rectification allocated to owners and developers for an apartment building comprising 66 lots, with a total of 132 defects (assuming two defects per lot). These defects have been apportioned across the different defect rectification methods using their respective shares and costs as presented in Table 7.2. The total cost of defect rectification in a Class 2 building with 66 lots and an assumed 2 defects per lot is nearly \$1.6 million in total. The example below suggests that in the base case, over

<sup>102</sup> Department of Prime Minister and Cabinet (2024), Regulatory Burden Measurement Framework. <<https://oia.pmc.gov.au/sites/default/files/2024-02/regulatory-burden-measurement-framework.pdf>>

<sup>103</sup> Deloitte analysis of building permit data

<sup>104</sup> The CIE (2021), Building Confidence Report: A case for intervention. <<https://www.abcb.gov.au/sites/default/files/resources/2022/Building-confidence-report-case-intervention.pdf>>

<sup>105</sup> The CIE (2021), Building Confidence Report: A case for intervention. <<https://www.abcb.gov.au/sites/default/files/resources/2022/Building-confidence-report-case-intervention.pdf>>



60 per cent of the cost burden falls on owners, who bear approximately \$1 million for rectification costs, while developers would bear close to \$600,000.

Table 7.3: Estimated allocation of costs between developers and owners in one apartment building in the base case

Method	Number of defects	Total cost to lot owners	Total costs to developers
OC or OC's insurance	57	\$625,000	-
Builder, developer or home warranty insurance	40	\$65,000	\$370,000
Owners taking the builder or developer to court	32	\$265,000	\$210,000
Defects not fixed	4	\$45,000	-
<b>Total</b>	<b>132</b>	<b>\$1,000,000</b>	<b>\$580,000</b>

Source: Deloitte analysis of CIE data. Note: totals may not add up due to rounding.

Extrapolating these per-lot costs to the 400 new Class 2 buildings of four storeys and above that are built each year in Victoria shows that new lot owners statewide could incur annual defect rectification costs of approximately \$400 million in aggregate per year, while developers would incur costs of approximately \$232 million in aggregate per year. These figures highlight the substantial economic burden borne by both stakeholder groups, with lot owners shouldering a disproportionately higher share of the overall costs.

### 7.2.2. Redistribution of financial defect rectification costs as a result of the DBS

As of 2024, the estimated cost of building one lot in an apartment building of four storeys and above in Victoria is approximately \$462,000.<sup>106</sup> Assuming that an apartment building has 66 lots on average, the total cost of building work would be approximately \$30.5 million.<sup>107</sup> Under the DBS, developers would be required to post a bond equal to 2 per cent of the total cost of building work, amounting to \$610,000 for such a development.

The introduction of the DBS aims to redistribute the financial burden of addressing building defects, which is currently borne primarily by lot owners. To do so, the developer bond would be used to cover some costs of defect rectification. As estimated in section 7.2.1, the average total cost to consumers associated with defect rectification in an apartment building is approximately \$1 million. With the implementation of the DBS, DTP expects that the full amount of the developer bond (\$610,000) will be drawn upon. This represents a direct financial transfer from consumers to developers (see Table 7.4).

As a result of this transfer, the contribution of developers for defect rectification would nearly double to approximately \$1.2 million. Owners would still face residual costs of rectification (approximately \$390,000) as it is expected that the value of the bond will be insufficient to cover the full costs of rectification.

For this example, it is assumed that there is no change in the number of defects in a lot from the base case. In reality, and as discussed in the MCA, the number of defects in apartment buildings would be expected to decrease due to incentives to improve building quality throughout the construction process. However, the precise extent of any improvement cannot currently be reliably estimated. Furthermore, addressing defects early on can often be more cost-effective as it helps prevent them from developing into more serious issues.

<sup>106</sup> Australian Bureau of Statistics (2025), Building Activity Australia. The cost of building an apartment was calculated by dividing the total value of work completed by the total number of dwelling units completed in 2024 for apartments in a four or more-storey block.

<sup>107</sup> The CIE (2021), Building Confidence Report: A case for intervention. <  
<https://www.abcb.gov.au/sites/default/files/resources/2022/Building-confidence-report-case-intervention.pdf>>



Proactive rectification at an early stage can potentially reduce overall rectification costs. As a result, the costs described in this section can be considered conservative and may overstate costs.

Table 7.4: Estimated reallocation of rectification costs between owners and developer under the DBS, for one apartment building

	<b>Owners</b>	<b>Developers</b>	<b>Total costs</b>
Base case distribution of costs	\$1,000,000	\$580,000	\$1,580,000
Change due to the introduction of the DBS	-\$610,000	+\$610,000	\$1,580,000
<b>DBS distribution of costs</b>	<b>\$390,000</b>	<b>\$1,190,000</b>	<b>\$1,580,000</b>

Source: Deloitte calculations

At an economy-wide level, while this represents a transfer with zero net impact, it also represents a reduction in costs to lot owners of \$244 million per year (approximately 40% less than the base case). Correspondingly, the DBS would increase costs to developers by the same amount (\$244 million per year).

### 7.2.3. Compliance costs associated with the DBS

OCs and developers are also expected to incur compliance costs in meeting their obligations under the DBS. All these costs are considered incremental to the base case where the DBS does not operate.

#### Compliance costs to OCs

OCs are expected to incur compliance costs primarily related to administrative tasks required under the DBS. These tasks include:

- Approving the building assessor nominated by the developer
- Coordinating preliminary and final inspections of defective building work in private apartment lots with residents
- Coordinating the rectification of identified defective building work
- Preparing and submitting claims to access bond funds.

In the absence of certainty regarding how long each of these tasks will take, it is assumed that the time required for these activities is 25 hours per apartment building. This time estimation considers the value of leisure time for individuals at \$37 per hour, amounting to approximately \$1000 per bond.<sup>108</sup>

#### Compliance costs to developers

Developers are subject to a range of compliance costs associated with fulfilling their obligations under the DBS, including:

- Understanding requirements of the DBS (once-off cost)
- Nominating a building assessor
- Issuing the bond and notifying the BPC of bond lodgement
- Coordinating the rectification of identified defective building work
- Releasing the bond money.

The total time and effort associated with the above activities is unknown. Therefore, a conservative assumption of approximately 50 hours of administrative time per developer bond has been made. An hourly wage of \$95 (including on-costs and overheads) has been assumed based on a full-time business

<sup>108</sup> Office of Impact Analysis (2024), Regulatory Burden Measurement Framework. <<https://oia.pmc.gov.au/sites/default/files/2024-02/regulatory-burden-measurement-framework.pdf>>



professional's salary.<sup>109</sup> The total administrative burden per bond/building to developers is approximately \$5,000.

To fulfil the 2 per cent bond requirement, it is assumed that most developers would obtain a bank guarantee equivalent to the bond amount. Bank guarantees incur establishment fees and ongoing fees. For this example, an establishment fee of \$250 and ongoing guarantee fees of 2.5 per cent of the bond value per annum have been used.<sup>110</sup> Based on an expected bond amount of \$610,000 and a lifespan of the bond of 3.5 years, this equates to approximately \$55,000.

Developers are also responsible for covering the fees associated with building assessors who conduct both preliminary and final inspections of defective work. Using a building assessor fee of \$250 per lot<sup>111</sup> as a proxy, it is assumed that this cost will amount to approximately \$17,000 for an apartment building with 66 lots. The expected compliance costs for developers per developer bond are presented in Table 7.5.

Table 7.5 Estimate compliance cost per developer bond (rounded up to the nearest 000)

<b>Compliance costs to developers</b>	<b>Developers</b>	<b>OC</b>
Bank guarantee for developer bond	\$55,000	\$-
Administrative costs	\$5,000	\$1000
Building assessor costs	\$17,000	\$-
<b>Total costs</b>	<b>\$77,000</b>	<b>\$1000</b>

Source: Deloitte calculations.

Given there are 400 developer bonds expected each year, this example suggests developers across Victoria could face total compliance costs of \$30.1 million each year as a result of the DBS. These costs are largely driven by the cost of bank guarantees on the bonds. The compliance costs across Victorian OCs is much less, at approximately \$400,000 per year.

Under the Buyer Protections Act, developers and OCs can apply to the BPC for an internal review of decisions made by it in relation to the DBS. Reviewable decisions include decisions made by the BPC regarding:

- The appointment of a building assessor
- Exempting a residential apartment building from the requirement for a final inspection
- Determination of a bond claim
- Any other reviewable decisions prescribed through Regulations.

These entities also have the right to apply to VCAT for a review of the BPC's internal review decision if they are not satisfied with the outcome.

Such appeals to both the BPC and VCAT would incur costs for both the applicant and the government. However, there is uncertainty around how often these rights will be exercised, and there is also no available information on the specific costs that would be incurred. These costs have therefore not been quantified.

<sup>109</sup> Australian Bureau of Statistics (2024), Employee Earnings August 2040 (catalogue 6337.0) <<https://www.abs.gov.au/statistics/labour/earnings-and-working-conditions/employee-earnings/latest-release>>

<sup>110</sup> Commonwealth Bank of Australia, Bank guarantee. <<https://www.commbank.com.au/business/loans-and-finance/bank-guarantee.html>>

<sup>111</sup> New South Wales Government (2023), Mandating Decennial Liability Insurance Regulatory Impact Statement. <[https://hdp-au-prod-app-nsw-haveyoursay-files.s3.ap-southeast-2.amazonaws.com/8216/9897/4614/22878f6fc96b44992b83756d17b0ee38\\_RegulatoryImpactStatementDecennialLiabilityInsurance.pdf](https://hdp-au-prod-app-nsw-haveyoursay-files.s3.ap-southeast-2.amazonaws.com/8216/9897/4614/22878f6fc96b44992b83756d17b0ee38_RegulatoryImpactStatementDecennialLiabilityInsurance.pdf)>



#### 7.2.4. Summary of economy-wide costs

Table 7.6 illustrates the expected statewide costs based on an assumption of 400 developer bonds being issued each year. These bonds represent the costs per new lot, as bonds will be required for most new residential apartment buildings of four storeys and above. For this example, all costs associated with each bond are counted in the year it is lodged.

The financial impact of the bond amount itself represents a transfer between developers and owners, resulting in a net impact of zero. Using an indicative average bond value of \$610,000, this amounts to a total transfer of \$244 million per year.

In addition to this transfer, compliance costs to OCs and developers are expected to amount to \$31.2 million per year. These costs represent the incremental costs to stakeholders associated with the DBS.

Table 7.6: Economy-wide impact of developer bonds

	<b>Financial costs</b>	<b>Compliance costs</b>	<b>Total costs</b>
Impact on owners	-\$244,000,000	\$400,000	-\$243,600,000
Impact on developers	\$244,000,000	\$30,800,000	\$274,500,000
<b>Net impact</b>	<b>\$0</b>	<b>\$31,200,000</b>	<b>\$31,200,000</b>

Source: Deloitte calculations.

#### 7.2.5. Break-even analysis

Break-even analysis has been used to estimate the point at which the expected benefits of the preferred option equal the costs of the DBS, as illustrated in the example above. Based on the potential scale of economy-wide costs (see section 7.2.4), the benefits of introducing the DBS would need to exceed \$31.2 million per year.

The value of avoided defects serves as the primary metric for the break-even analysis due to its alignment with the DBS's central objective to improve building quality. This metric is also the most quantifiable benefit, allowing for a clear assessment of the scheme's economic impact. While other benefits are anticipated, such as enhanced consumer confidence in the building industry, their value is difficult to measure and is complicated by concurrent regulatory reforms, making it difficult to isolate the specific contribution of the DBS.

On a per-apartment building or per-bond basis, the compliance cost of the DBS is estimated at \$78,000. Assuming an average rectification cost of \$13,000 per defect, six defects would need to be avoided per apartment building on average to cover the associated compliance costs.

This break-even point is considered feasible given that an average apartment building with 66 lots is expected to have approximately 132 defects across the building, based on historical defect data. Avoiding just 6 of these defects represents a relatively small proportion (approximately 4 per cent) of the total defects.

Extrapolating to the economy-wide level, there would be an estimated 53,000 defects in new apartment buildings constructed each year. The cost of rectifying these would be an estimated \$686 million while the estimated compliance cost for developers state-wide would be approximately \$31.2 million. Therefore, on average, 22 new apartment buildings would need to be defect-free for the costs to break even. This represents 6 per cent of all in-scope buildings constructed each year.

As the DBS is expected to incentivise improved construction practices and accountability among developers, the DBS is well positioned to reduce defect rates and contribute to economic savings that offset its compliance costs.



## Part 2: First-resort Home Warranty Scheme (FHWS)

### **Approach to assessment of options relating to the FHWS**

As outlined in Chapter 3, the approach to analysing options for the first-resort warranty scheme applies an MCA framework to assess how each option performs against a defined set of criteria, with the aim of identifying the preferred option.

This analysis focuses on elements of the scheme that are to be prescribed in the proposed Regulations. This includes a range of types of cover, specific insurance thresholds and exclusions (see Appendix E). For the purpose of comparing options, these design settings have been packaged into three options. A description of the broader first-resort warranty that was introduced through legislation is outlined in section 1.2.2.

As with the DBS, an illustrative case study is provided as an indication of the potential scale of costs and benefits for the preferred option, which enables the FHWS to take effect.



## 8. First-resort home warranty scheme

This chapter describes the approach to analysing options identified for introducing the first-resort warranty scheme and considers the impact of the preferred option.

### 8.1. The options

The Buyer Protections Act introduced a framework to transition Victoria's DBI scheme from last- to first-resort system. However, this transition cannot be effectively implemented or enforced as regulations are required to prescribe:

- The types of assistance available to consumers under the FHWS.
- The types of defects and periods of cover.
- Maximum amount of cover for individual homes and common property.
- Exclusions.
- Claim processes, including assessment and time for making a claim.
- Builder notification time periods and methods.

Given the interdependence of the policy elements within each option, considering different options for individual policy elements in isolation from the others does not give a meaningful sense of the choice to be made in prescribing regulations based on these settings, which is essentially to determine the scope and extent of coverage under the FHWS. A broad range of thresholds, exclusions and timeframes therefore characterises the options in this Chapter. These specific design settings are set out in Appendix E. For the purpose of options analysis, these have been packaged into three options, focusing on the key differences between them.

#### 8.1.1. The base case

The base case presumes that no regulations are prescribed across any of the above areas. As a result, although the FHWS is legally established, it would not be able to function in practice as there would be no details in place – such as limitations on cover or claim processes – to guide its operation. This would mean the policy intent of the Buyer Protections Act would not be achieved and the residual problem outlined in section 2.4.1 would persist. This allows comparison of the potential scope of coverage of a FHWS scheme that closely aligns with the current last-resort DBI scheme (Option 1) with other potential levels of cover (Options 2 and 3).

#### 8.1.2. Option 1: Aligned to the previous Victorian DBI scheme

Option 1 offers the lowest level of cover. Option 1 would prescribe cover details that align closely with the thresholds held under the last-resort DBI scheme. Specifically, Option 1 proposes:

- The lowest level of assistance and maximum amount of cover, including:
  - An aggregate limit of \$300,000.
  - Claims for incomplete work capped at 20 per cent of the contract price.
  - Six-year cover for structural defects and two-year cover for non-structural defects
  - Accommodation, storage and removal costs capped at 60 days.
- Preserves existing timeframes for lodgement of claims.



### 8.1.3. Option 2: Bespoke model

Option 2 presents a bespoke model for the FHWS. Option 2 improves available cover compared to Option 1, offering greater claimable amounts. Specifically, alongside the coverage offered under Option 1, under Option 2, consumers:

- Have an aggregate claimable amount of \$400,000.
- Claims for incomplete work capped at 30 per cent of the contract price.
- Cover for major defects lasting six years, and all other defects are covered for two years from completion.
- May also claim the cost for securing the built work, capped at \$5,000.
- Cover related to building work in swimming pools, capped at \$100,000.
- Consumers are entitled to claim up to \$10,000 for accommodation, removal or storage costs related to defective or incomplete work.

Option 2 also enables claims to be made within 12 months of the building owner becoming aware, or reasonably ought to have become aware, of the defect. Prior to making the claim for assistance, the building owner must notify the builder of the defect. Once notified, the builder is required to respond within 28 calendar days. This process distinguishes Option 2 from Options 1 and 3 by prescribing both, the timing and content of the consumer's notification and the builder's response.

Under Option 2, a defect does not include domestic building work that fails to comply with the building contract solely owing to a minor cosmetic difference. Domestic building work that fails to comply with the building contract solely owing to a minor cosmetic difference, such as paint that is not perfectly smooth, a bathtub that is the wrong colour, or the use of a different doorknob, is excluded from coverage under the scheme to ensure its financial viability.

Resolving minor cosmetic differences would impose disproportionately large administrative and financial costs relative to the very small loss suffered by consumers. To ensure clarity and uniformity in applying this exclusion, the Building and Plumbing Commission (BPC) will create a definitive list of minor cosmetic differences.

Consumers with minor cosmetic differences resulting from domestic building work can seek resolution through the Domestic Building Dispute Resolution Victoria (DBDRV) and the Victorian Civil and Administrative Tribunal (VCAT).

However, given the modest nature of these defects, it is anticipated that most consumers will not proceed to VCAT, meaning they will ultimately bear the cost of rectifying them.

### 8.1.4. Option 3: Aligned to the Queensland Home Warranty Scheme

Option 3 aligns with the terms of cover available under the Queensland Home Warranty Scheme (QHWS).

Option 3 has similarities to Option 2; however, it expands the cover by:

- Offering maximum cover of \$600,000 (or \$900,000 if optional cover is in force) consisting of:
  - o \$200,000 (or \$300,000 if optional cover is in force) for incomplete work and defect rectification if the building work is not substantially complete.
  - o \$200,000 cover (or \$300,000 if optional cover is in force) for defined event cover.
  - o \$200,000 (or \$300,000 if optional cover is in force) for the rectification of defective work after the building work is substantially complete. Structural defects are covered for 6 years and 6 months, while non-structural defects are covered for 6 months.
- Allowing for claims for defined events, including vandalism, forcible removal, fire, storm or tempest if the building work is damaged in the period after the original builder dies, disappears or goes insolvent and a replacement builder commences work on site.
  - o Consumers are entitled to reinstatement of the work to the condition it was in prior to the event.
  - o Consumers can claim the cost of reinstatement work over \$2,500 that occurs as a result of vandalism.



- Allowing consumers to claim for loss in value of work where they may not be otherwise entitled to assistance (i.e., in the case of work not meeting design plans) without approval from the BPC.
- Option 3 also prescribes that a claim must be lodged within three months of the consumer becoming aware of the issue for any structural defects and within seven months for non-structural defects.
- Under Option 3, a provisional claim is considered lodged with the BPC when a building owner notifies the builder of a defect. The timeframe for providing this notification is not fixed; instead, it allows for flexibility based on the specific circumstances of each case. The builder must be notified within a reasonable period, enabling flexibility to accommodate variations in the nature and complexity of defects, as well as the consumer's ability to identify and act on them.

### **CASE STUDY: QUEENSLAND'S HOME WARRANTY SCHEME**

The QHWS was established in 1977. It was introduced in response to persistent issues within the residential construction sector, where homeowners faced significant risks from defective building work and builder insolvency. Prior to the scheme's establishment, consumers in QLD often encountered difficulties securing redress when builders failed to complete projects or left unresolved defects, resulting in financial and emotional stress. The state Government identified the need for a comprehensive framework to protect homeowners and restore public trust in the construction industry.<sup>112 113 114</sup>

Similar to Victoria, key challenges in the QLD sector included a lack of consistent consumer protection, inadequate rectification pathways for incomplete or faulty building work, and a complex and lengthy process of pursuing claims against builders. Many homeowners were left vulnerable when builders became insolvent or refused to rectify defects, as there was no mandated insurance safety net in QLD.<sup>115</sup> These exposed significant gaps in regulatory oversight and allowed some building practitioners to operate with limited accountability, which in turn, undermined consumer confidence in the sector. To address these issues, the Queensland government implemented the QHWS with the building regulator, the Queensland Building and Construction Commission (QBCC), the administrator of the scheme. The QHWS is a not-for-profit statutory insurance scheme and is funded through consumer premium payments. It provides cover for any loss they may face if a licensee does not complete residential construction work or rectify defective work. During the 2023-24 period, the QBCC issued 150,825 insurance policies, of which 80.7 per cent were for renovation work and 19.3 per cent were associated with new-building work.<sup>116</sup>

The premium must be paid to the QBCC for any residential building work over \$3,300 in cost. The warranty on the work remains in place for six years and six months (for structural defects) from the date of the contract and remains in place if the property is sold. If the building work is incomplete or defective, the consumer begins the claims process by lodging a complaint with the QBCC, where it is assessed for

<sup>112</sup> Merlow, J (n.d.) *Queensland Home Warranty Scheme: Your Guide to Protecting Your Residential Investment*, <<https://www.merlolaw.com.au/post/queensland-home-warranty-scheme-your-guide-to-protecting-your-residential-investment>>

<sup>113</sup> Wilkie, D, (2021) *Queensland regulator under scrutiny amid wave of building defects*. <<https://www.opimagazine.com.au/news/article/queensland-regulator-under-scrutiny-amid-wave-of-building-defects>>

<sup>114</sup> Queensland Building and Construction Commission (2024) *Corporate QBCC 23-24 Annual Report*. <<https://www.qbcc.qld.gov.au/sites/default/files/documents/corporate-qbcc-ar-23-24-annual-report.pdf>>

<sup>115</sup> Merlow, J (n.d.) *Queensland Home Warranty Scheme: Your Guide to Protecting Your Residential Investment*, <<https://www.merlolaw.com.au/post/queensland-home-warranty-scheme-your-guide-to-protecting-your-residential-investment>>

<sup>116</sup> Queensland Building and Construction Commission (2024) *Corporate QBCC 23-24 Annual Report*. <<https://www.qbcc.qld.gov.au/sites/default/files/documents/corporate-qbcc-ar-23-24-annual-report.pdf>>



eligibility. Non-completion claims and defective work claims have different eligibility along with different maximum amounts and rectification pathways.

In 2023-24 the QBCC received \$169.1 million in insurance premiums, and over the same period a total of \$88.7 million was claimed by consumers for rectification of defective work, or incomplete work.<sup>117</sup> The QLD Government reports that it costs them approximately \$5,500 to assess and finalise a QHWS claim.<sup>118</sup> While the QBCC aims to recover the cost of the claims from the parties responsible for the claimable work, insolvency was the main driver for many claims and over the 2023-24 period, they recovered \$3.9 million.<sup>119</sup>

The scheme requires builders to pay the premium on behalf of homeowners before commencing work, providing coverage for non-completion, defective work, and alternative accommodation. The approach included clear dispute resolution pathways and proactive regulatory intervention to ensure compliance. These measures were designed to support both consumers and builders by increasing the available consumer protections and providing accessible and timely pathways to dispute resolution for both parties.

## 8.2. Approach to MCA

The criteria outlined in Table 8.1 have been selected to assess the options for the FHWS. The MCA framework captures the direct cost impact on stakeholder groups, highlighting where the initial burden of the regulatory change is likely to fall. For this reason, cost criteria focus on the costs to consumers, industry and government, with greater emphasis placed on minimising burden to consumers and industry participants.

The benefit criteria focus on achieving the core policy objectives, including consumer protection and improvements in building quality, each weighted at 20 per cent. Consistency is also considered, as it is likely to increase regulatory clarity, which can improve both the efficiency and effectiveness of the scheme.

Table 8.1: MCA criteria

Criterion	Description	Weighting
<b>Benefit criteria</b>		
Achievement of consumer protection outcomes	The extent to which each option reduces residual risk borne by consumers (building owners) after a defect, incomplete work or non-compliant or incomplete domestic building work is identified. This includes: <ul style="list-style-type: none"> <li>– The likelihood that consumers can access rectification in a timely, affordable and fair way.</li> <li>– The security of remaining in a safe and habitable home.</li> <li>– Broader confidence in the building industry.</li> </ul>	20%
Improvement of building work quality	The extent to which each option incentivises improvements in the quality of building work, reducing the likelihood of defective, incomplete or non-compliant domestic building work during initial construction. This includes better workmanship and compliance with building standards.	20%
Consistency	The extent to which the options are consistent with: <ul style="list-style-type: none"> <li>– Best practice principles</li> <li>– Existing frameworks for DBI applied in other Australian jurisdictions.</li> <li>– Existing and planned Victorian legislation.</li> </ul>	10%

<sup>117</sup> ibid

<sup>118</sup> ibid

<sup>119</sup> ibid



Criterion	Description	Weighting
<b>Cost criteria</b>		
Costs to consumers	The extent to which each option imposes financial or administrative costs on consumers, including premiums, residual out-of-pocket costs not covered by insurance, and the administrative burden of understanding, accessing or claiming under the scheme.	20%
Costs to industry	The extent to which each option imposes costs on industry (building practitioners) including the administrative burden of lodging policies and premiums, any costs associated with claims handling or cost recovery mechanisms and any behavioural or operational changes required to minimise risk (and avoid insurance claims).	20%
Costs to Government	The extent to which each option imposes resourcing or financial costs on Government, including the administration of the insurance scheme, processing of claims, and regulatory oversight.	10%

The cost and benefit criteria have been weighted equally, with each assigned 50 per cent. This approach aligns with best practice as outlined in BRV’s Guidance Note on MCA.<sup>120</sup> Within these two categories, the defined criteria are weighted according to their relative importance in achieving the objectives of the proposed Regulations.

Criterion 2 (Consistency) is weighted lower than the other benefit criteria because it relates to alignment with the broader regulatory environment rather than the core objectives of the proposed Regulations. While consistency contributes to the overall efficiency of the scheme, DTP places higher weight on criteria that address consumer protections and the quality of building work, as these are more directly linked to reducing harm.

### **PREMIUMS ON DOMESTIC BUILDING INSURANCE**

Builders are currently required to purchase DBI on behalf of their customers when the cost of building works exceed \$16,000, except when constructing a residential apartment building of four storeys and above.<sup>121</sup> Builders pay a premium when taking out DBI. This premium charged can vary between projects depending on the construction type and the builder’s risk profile

The premiums charged have recently increased significantly due to the increasing cost of building work and an increase in claims following the insolvency of major builders. Premiums were increased by 43 per cent in 2023 across all construction types, and by 65 per cent in 2024 for single-dwelling policies.<sup>122</sup>

Section 8.6.2.2 further discusses how premiums are set and any potential impacts on premiums from the proposed changes to the scheme.

Similarly, Government costs are weighted lower than costs to consumers and industry. This reflects the principle that the reforms are designed primarily to safeguard consumers and support the viability of the building sector. As such, DTP places greater value on the impacts borne by these groups than on costs incurred by Government itself.

<sup>120</sup> Better Regulation Victoria, ‘Guidance Note – Multi-Criteria Analysis’ (2019). <<https://content.vic.gov.au/sites/default/files/2019-10/Guidance-note-Multi-Criteria-Analysis-MCA.pdf>>

<sup>121</sup> Victorian Auditor-General’s Office (2025), Domestic Building Insurance. <[https://www.audit.vic.gov.au/sites/default/files/2025-05/20250514\\_Domestic-Building-Insurance\\_1.pdf?>](https://www.audit.vic.gov.au/sites/default/files/2025-05/20250514_Domestic-Building-Insurance_1.pdf?>)

<sup>122</sup> Victorian Auditor-General’s Office (2025), Domestic Building Insurance. <[https://www.audit.vic.gov.au/sites/default/files/2025-05/20250514\\_Domestic-Building-Insurance\\_1.pdf?>](https://www.audit.vic.gov.au/sites/default/files/2025-05/20250514_Domestic-Building-Insurance_1.pdf?>)



## 8.3. Options analysis

### 8.3.1. Base case

Under the base case, no Regulations are made. The FHWS is established under the Buyer Protections Act but cannot operate efficiently or effectively due to the lack of operational detail on important matters including (but not limited to) types of assistance available, the types of defects covered and the applicable periods of cover. Without these details, the scheme is effectively inoperative, leaving consumers exposed to residual harm where defective, incomplete or non-compliant work arises. Consequently, there is no impact, and the underlying problem outlined in Chapter 2 persists. For this reason, the base case is awarded a score of 0.

### 8.3.2. Criterion 1: Achievement of consumer protection outcomes

This criterion assesses the extent to which an option successfully reduces the residual risk borne by consumers in the event that defective, incomplete or non-compliant work is identified. It considered whether consumers can access timely, affordable and fair rectification as well as the degree to which housing security is maintained. It also captures the broader implications for consumer confidence in the building sector. Table 8.2 summarises the scores for this criterion.

Table 8.2: Summary of MCA scores for Criterion 1: Achievement of consumer protection outcomes

Option	Weighting	Base Case	Option 1 <i>Aligned to previous Victorian DBI scheme</i>	Option 2 <i>Bespoke model</i>	Option 3 <i>Aligned to current QLD DBI model</i>
Achievement of consumer protection outcomes	20%	0	4	6	5
<b>Weighted score</b>		<b>0</b>	<b>0.8</b>	<b>1.24</b>	<b>1.0</b>

#### 8.3.2.1. Option 1: Aligned to previous Victorian DBI scheme

Option 1 is awarded a score of 4 as the introduction of the FHWS is expected to deliver stronger consumer protection outcomes when compared to the base case. While the base case only provides insurance coverage to consumers in the case of death, insolvency or disappearance of the builder, Option 1 allows for consumers to access insurance while the builder still operates. The change from last-resort to first-resort inherently would achieve better consumer protection outcomes. These protections include an increased eligibility to claim insurance in a wider range of scenarios, as well as accessing a rectification pathway that is not dispute resolution.

Option 1 will reduce the financial burden on consumers by removing the need to pay upfront or out-of-pocket to rectify defects to their property. Instead, insurance cover would reduce the immediate financial burden on building owners and lower reliance on litigation to recover costs. Consumers are also likely to benefit from reduced time, stress and administrative costs, as earlier access to insurance could accelerate defect resolution and limit the need for lengthy dispute resolution processes.

This option also supports housing security as faster and more reliable access to rectification (relative to the base case) helps consumers remain in a safe and habitable home without prolonged disruption. Option 1 is also expected to improve broader consumer confidence in the building industry. By offering more accessible and reliable protections, Option 1 helps rebuild trust in the sector and the BPC.

However, relative to other options, Option 1 provides a narrower scope of coverage. Many of its limits were set over 10 years ago and have not been adjusted with recent cost escalations. This limitation means that while it significantly improves consumer protection compared to the base case, it does not fully eliminate residual risk for all consumers, which is why it does not receive the highest possible score.



### 8.3.2.2. Option 2: Bespoke model

Option 2 was awarded a score of 7 as it is expected that it will result in a high improvement in consumer protections on the base case. Option 2 builds upon the achievement of consumer protection outcomes (such as reduced out-of-pocket financial burden from litigation, rectification works, reduced insecurity and instability of housing and associated stress) that exist in Option 1. However, it provides superior coverage allowing for a larger range of scenarios to be claimable, offering a higher maximum amount than Option 1, which decreases the chance a consumer will exhaust their limit and need to pay out of their own pocket

Option 2 offers the same types of consumer protection outcomes as Option 1. However, it offers them to a larger extent than found in Option 1 as it increases the coverage and maximum claimable amounts. Option 2 delivers increased consumer protection by offering a high aggregate claim limit of \$400,000 without restrictive sub-limits across most claim types and increases the claimable amount for incomplete work.

The flexible aggregate limit ensures that their claims are not constrained by narrow category caps. Together, these features enable more comprehensive remediation of defects, giving consumers greater confidence that issues will be addressed regardless of when they occur or how they are distributed across different types of claims.

Contrasting to the base case and Options 1 and 3, Option 2 prescribes requirements for consumers' notification to the builder about an intent to claim under the FHWS. Under Option 2, the rectification period itself is flexible, however the builder has a maximum of 28 days to respond to the consumer with a plan to rectify defects. This prescribed period assures the consumer that there will be a response from the builder and reduces uncertainty around timeframes. Additionally, the claim itself is backdated to the day the consumer notifies the builder of intent to claim, meaning that even if a builder deliberately delays the process of rectification, consumers would still be protected by the FHWS.

### 8.3.2.3. Option 3: Aligned to QLD scheme

Option 3 is awarded a score of 6 for this criterion, offering a similar level of consumer protection to Option 2, but with trade-offs that both enhance and limit consumer outcomes.

By aligning with the QLD first resort scheme, Option 3 will require defects to be rectified within a notice period of 20 days. This provides the consumer with the assurance that rectification will take place within a certain time frame, and if it does not, then they remain protected under the FHWS. This is likely to increase consumer confidence in the accountability of the building system.

Option 3 also allows for optional cover providing consumers with control over their level of protection. This flexibility allows consumers to align their insurance coverage with their unique circumstances and risk preferences. The ability to tailor coverage can increase financial protection from the cost of rectifying defects in the areas where consumers feel as though they may need it most.

These benefits are partly offset by more restrictive design features in some cases. Option 3 offers a higher overall claim limit of \$600,000, exceeding Option 2's \$400,000. However, this apparent advantage is offset by strict sub-limits of \$200,000 each for incomplete work, defective work, and defined cover events. In practice, if a consumer faces significant incomplete or defective work, they could quickly reach the \$200,000 cap, limiting further recovery. Conversely, Option 2 allows the entire \$400,000 limit to be applied to such claims, providing greater flexibility and potentially more comprehensive protection for consumers facing extensive issues.

The key weakness of Option 3 relative to Option 2, however, is the relatively shorter timeframe for raising issues with BPC. The 6.5 years cover for structural defects begins from the time a contract is entered into. Therefore, the longer construction work takes to complete, the more limited time consumers may be covered under the insurance. For instance, if a house takes two years to finish construction, consumers would only be covered for 4.5 years post-completion under Option 3, while Option 2 would provide eight years of cover. For non-structural defects, cover is limited to 6 months commencing at completion. Furthermore, the claim



periods under option 3 are significantly more restrictive: consumers have only 3 months from being aware of a defect to making a claim for structural defects, compared to 12 months under Option 2.

While shorter time frames can accelerate resolution, they also risk disadvantaging consumers, particularly where defects emerge gradually or where consumers are unaware of the need to act quickly. These stricter conditions may limit the effectiveness of protections in practice, with some consumers potentially missing out due to procedural hurdles.

Overall Option 3 delivers stronger consumer protection outcomes than Option 1 through faster resolution and better amounts of cover (including optional cover) but falls short of Option 2 due to its reduced claim amounts and tighter timeframes.

### 8.3.3. Criterion 2: Improvement of building work quality

This criterion measures the extent to which the options work to encourage an increase in building quality. Reducing the number of defects, be that through imposing financial penalties, or through more rigorous checks throughout the construction process. The MCA scores for Criterion 2 are summarised in Table 8.3.

Table 8.3: Summary of MCA scores for Criterion 2: Improvement of building quality

Option	Weighting	Base Case	Option 1 <i>Aligned to previous Victorian DBI scheme</i>	Option 2 <i>Bespoke model</i>	Option 3 <i>Aligned to QLD scheme</i>
Improvement of building work quality	20%	0	2	5	4
<b>Weighted score</b>		<b>0</b>	<b>0.4</b>	<b>1</b>	<b>0.8</b>

#### 8.3.3.1. Option 1: Aligned to previous Victorian DBI scheme

Option 1 was awarded a score of 2 as it is expected that it will modestly improve building work quality when compared to the base case.

Under Option 1, improvements in quality arise through the operation of the first-resort claims processes. When a consumer lodges a complaint with the BPC, the builder is notified and may be issued with an RO. This gives the builder an opportunity to rectify the defect before the FHWS is activated. If the builder fails to rectify the issue, the consumer can access insurance to cover the cost of rectification. While the consumer is the recipient of financial compensation, the BPC may then seek to recover costs from the builder and/or choose to take disciplinary action. These two mechanisms may incentivise builders to maintain higher standards of quality throughout the construction process to avoid insurance claims being made against them.

However, the incentives under Option 1 remain relatively low. This is because coverage is narrow and claim amounts are limited. As such, the potential costs to industry from BPC recovery action are modest.

#### 8.3.3.2. Option 2: Bespoke model

Option 2 was awarded a score of 5 as it is expected to deliver a moderate improvement in building work quality relative to both the base case and Option 1.

Like Option 1, builders are likely to face consequences if they fail to rectify defects. However, the incentive effect is stronger under Option 2 due to its broader coverage particularly for water and weather proofing defects, higher maximum claim amounts, and longer timeframes for non-structural claims. With more defects captured and higher potential payouts, builders face higher financial and reputational consequences if poor-



quality work leads to insurance claims. This increases the deterrent effect of both BPC cost recovery and disciplinary action, encouraging builders to invest in higher quality materials, workmanship and compliance practices from the outset.

### 8.3.3.3. Option 3: Aligned to QLD scheme

Option 3 was awarded a score of 4 for this criterion. Under Option 3 the claims and rectification pathways operate in a similar way to Options 1 and 2. However, the strength of incentives to improve the quality of work is marginally less than Option 2 given it prescribes lower maximum amounts and shorter claim timeframes. This reduces the scale of potential claims and cost recovery actions. Therefore, the deterrent effect is less pronounced than under Option 2.

Nevertheless, Option 3 still represents an improvement over Option 1. The combination of expanded coverage and mandatory rectification timeframes (e.g. 20 days to rectify from notice period) creates greater accountability for builders, which should contribute to fewer defects and higher overall quality.

### 8.3.4. Criterion 3: Consistency

This criterion assesses the extent to which the options are consistent with best practice, industry recommendations and other Australian jurisdictions, along with existing and planned Victorian legislation and regulation. The summary of the MCA scores for this criterion are presented in Table 8.4.

Table 8.4: Summary of MCA scores for Criterion 3: Consistency

<b>Option</b>	<b>Weighting</b>	<b>Base Case</b>	<b>Option 1</b> <i>Aligned to previous Victorian DBI scheme</i>	<b>Option 2</b> <i>Bespoke model</i>	<b>Option 3</b> <i>Aligned to QLD scheme</i>
Consistency	10%	0	3	6.5	5
<b>Weighted score</b>		<b>0</b>	<b>0.3</b>	<b>0.65</b>	<b>0.5</b>

#### 8.3.4.1. Option 1: Aligned to previous Victorian DBI scheme

Option 1 was awarded a score of 3 for this criterion. Consistency, as explained in Table 8.4, is a measure of how the options align to best practice frameworks, approaches taken in other jurisdictions in Australia as well as current and upcoming Victorian legislation.

By prescribing the required operational details, Option 1 will support the Buyer Protections Act in transitioning Victoria's HWS scheme from a last-resort to a first-resort model. This shift aligns with best practice principles, as first-resort schemes are considered to deliver more effective and efficient resolution of defects.

As such, Option 1 aligns with the broader national direction as other states have also implemented first-resort schemes. Queensland has had first-resort insurance since 1977, and NSW introduced their own, albeit optional, decennial liability insurance (DLI) scheme in 2022 (DLI being a form of first-resort insurance). By moving in this direction, Victoria would demonstrate consistency with the emerging direction towards first-resort insurance. For those building practitioners who operate across states, this will also support harmonising broad approaches to FHWS.

However, Option 1 is limited by its low coverage. While it adjusts the timing of access to insurance, it does not substantially change other elements of the scheme (such as claim amounts, coverage breadth or timeframes) to match more comprehensive approaches evident in other jurisdictions. Therefore, on balance, Option 1 scores moderately for consistency as it moves Victoria in line with national best practice by supporting the transition to a first-resort model but does not extend its scope beyond existing coverage.



### 8.3.4.2. Option 2: Bespoke model

Option 2 was awarded a score of 6.5 as it is expected to considerably increase consistency with best practice but also with other first resort schemes. Like Option 1, Option 2 aligns with industry best practice by transitioning Victoria’s HWS scheme from a last-resort to a first-resort model.

Option 2 provides coverage for major defects for six years from the date the domestic building work is completed. Builders operating in Queensland, New South Wales and Victoria would have consistent regulations. This duration reflects the existing standard in Victoria. While it does not extend to the full 10-year limitation period under section 134 of the *Building Act*, Option 2 strikes a practical balance between consumer protection and scheme affordability.

### 8.3.4.3. Option 3: Aligned to QLD scheme

Option 3 was awarded a score of 5 for this criterion. While Option 3 provides no additional alignment with Victorian legislative frameworks beyond that achieved in Option 1, it offers stronger consistency with Queensland’s already established first-resort insurance scheme.

By closely mirroring Queensland’s approach, Option 3 aligns with recognised best practice in another jurisdiction and reflects the operation of a well-tested model. This consistency is particularly beneficial for larger firms and those operating across multiple states, as it promotes a more stable and predictable operating environment for insurance. When insurance products are aligned nationally, cross-jurisdictional builders face fewer compliance complexities and lower administrative costs. This reduces the risk of firms reassessing their participation in the Victorian market due to higher costs or perceived regulatory risk.

However, Option 3 scores lower than Option 2 as it does not significantly align with current or planned Victorian regulatory frameworks. While consistency with QLD strengthens national comparability, it does not deliver the same level of local relevance or integration as Option 2, which is tailored to the Victorian context.

## 8.3.5. Criterion 4: Costs to consumers

This criterion assesses the extent to which the options cause financial, social or other harms to consumers. Table 8.5 provides a summary of scores for Criterion 4.

### REQUEST FOR STAKEHOLDER INPUT

18. DTP invites submissions from stakeholders discussing any expected costs to consumers from the proposed FHWS.

Table 8.5: Summary of MCA scores for Criterion 5: Costs to consumers

Option	Weighting	Base Case	Option 1 <i>Aligned to previous Victorian DBI scheme</i>	Option 2 <i>Bespoke model</i>	Option 3 <i>Aligned to QLD scheme</i>
Costs to consumers	20%	0	-1	1	1.25
<b>Weighted score</b>		<b>0</b>	<b>-0.2</b>	<b>0.2</b>	<b>0.25</b>

### 8.3.5.1. Option 1: Aligned to previous Victorian DBI scheme

Option 1 was awarded a score of -1 for its impacts on consumer costs. Transitioning from last- to first-resort coverage may increase claims, which in turn may place upward pressure on premiums if the defective work is



not rectified. The level of coverage and maximum amounts are linked to these premiums provide access to assistance for loss arising from non-compliant, defective, or incomplete work covered under the scheme.

Option 1 (not preferred-based on DBI) was awarded a score of -1 for its impacts on consumer costs. Preliminary actuarial advice indicates that premiums are not likely to materially increase under the FHWS across all three options considered. The impact on premiums is mitigated by the BPC's enhanced enforcement powers under the new integrated model which will enable it to place greater emphasis on compelling rectification rather than through claims under the FHWS.

This approach not only limits direct legal costs for consumers but also helps avoid increases in premiums by focusing on resolving defects rather than resorting to financial settlements. Under the proposed FHWS (across all options), consumers would no longer be required to pay an excess on claims. Under the current DBI, an excess is charged when a claim is made more than 12 months after completion. The excesses range from \$500 to \$1,000 depending on timing of the claim. This change further reduces financial burdens for consumers.

The limited coverage under Option 1 however increases the risk that consumers will incur substantial out-of-pocket costs if defects or non-compliant work fall outside the scheme's scope. Shorter claims windows and lower maximum amounts of cover heighten this risk relative to other options.

In addition to financial impacts, consumers face higher administrative and cognitive burdens to understand the new regime. Understanding what is covered, what is excluded, and navigating the claims process requires time and effort, increasing both transactional and mental costs compared to the base case. As the new FHWS will only apply to new contracts, it is acknowledged that consumers would have to incur the costs of understanding the contract in the base case too and therefore are limited to no transition costs for consumers. The administrative costs of understanding coverage would arise only in instances where a claim needs to be made. As fewer items are covered under Option 1, it may become more challenging for consumers to determine whether their specific circumstances fall within scope of coverage. This lack of clarity can lead to increased uncertainty for policyholders, potentially resulting in more disputes over coverage eligibility. However, these costs are expected to be minor and would likely be offset by the reduction in rectification and legal costs.

Overall, while Option 1 provides some financial protection, the combination of higher potential residual costs results in a negative impact on consumers, which explains the -1 score.

#### 8.3.5.2. Option 2: Bespoke model

Option 2 was awarded a score of 1 for its impacts on consumer costs. As with Option 1, Option 2 may increase premiums.

Option 2 provides financial benefits to consumers by increasing the cover limit compared to Option 1. The cost of construction has increased significantly in Victoria, particularly following the COVID-19 pandemic. The average cost of constructing a house increased from nearly \$243,000 in June 2014 (when the DBI coverage was increased to \$300,000) to \$470,000 in June 2024.<sup>123</sup> The increased coverage limit can therefore help reduce out of pocket costs for consumers, and reduce the number of claims that reach the maximum cap.

Option 2's aggregate claim limit of \$400,00 without sub-limits (aside from capping incomplete work to 30 per cent of the contract value) allows consumers to direct the full value of their available coverage toward the claims that are most relevant to their circumstances. This structure reduces the risk that consumers will incur out of pocket costs to fix issues despite not exhausting their entire coverage amount.

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<sup>123</sup> Australian Bureau of Statistics (2025), Building Activity. Australia. <<https://www.abs.gov.au/statistics/industry/building-and-construction/building-activity-australia/latest-release>.> Note: the cost of building one house in Victoria was estimated by dividing the value of work completed by number of dwelling units completed in June 2014 and June 2024.



Options 1 and 2 offer the benefit of longer cover for non-structural defects compared with option 3. This reduces the likelihood that consumers will need to fund repairs themselves after the policy expires, further lowering their costs.

Consumers are likely to be better protected financially than under Option 1. In addition, Option 2 includes fewer exclusions and more balanced claim timeframes, which lowers the administrative burden of understanding, accessing, and claiming under the scheme relative to Option 1. Option 2 therefore results in a positive score, with consumers likely to experience reduced costs than the base case.

#### 8.3.5.3. Option 3: Aligned to QLD scheme

Option 3 was awarded a score of 1.25 for its impacts on consumer costs. Similar to Options 1 and 2, consumers may face an increase in premiums relative to the base case to fund the FHWS coverage.

However, the broader coverage under Option 3 slightly reduces the likelihood and scale of out-of-pocket costs compared with Option 1, providing marginally better financial protection. Option 3 reduces costs for consumers by offering optional higher coverage amounts, allowing those who seek greater protection to access additional support, albeit with a higher premium. It also covers defined events not included in other options, ensuring consumers are protected against a wider range of potential issues and thereby limiting unexpected out-of-pocket expenses. Furthermore, Option 3 provides compensation for loss in value where consumers may otherwise have no recourse. Collectively, these features can help minimise financial exposure for consumers by broadening the range and depth of circumstances in which they can claim assistance.

Despite these benefits, coverage is not as extensive as Option 2, and the claims process includes relatively short timeframes and a moderate number of exclusions. As a result, consumers still face some risk of residual costs if defects fall outside the scope of the scheme. Administrative burdens remain, as consumers must understand coverage limits, exclusions, and navigate the claims process within a compressed timeframe. Option 3 therefore only receives a marginally higher score than Option 2.

#### 8.3.6. Criterion 5: Costs to industry

This criterion evaluates the extent to which the options cause financial, reputational or other harms to industry practitioners. The scores for this criterion are presented in Table 8.6.

This RIS does not attempt to cost the burden to industry imposed by the FHWS regulations as the available data on the current number and type of defects is incomplete and does not support a reliable estimate of likely rectification work. In addition, bringing work into compliance with existing standards is not considered a new regulatory cost: it reflects practitioners meeting obligations that already apply. Any costs incurred to fix non-compliant work therefore relate to correcting existing deficiencies, rather than costs created by the introduction of the FHWS regulations.

#### REQUEST FOR STAKEHOLDER INPUT

19. DTP invites submissions from stakeholders discussing any expected costs to industry from the proposed FHWS.



Table 8.6: Summary of MCA scores for Criterion 6: Costs to industry

<b>Option</b>	<b>Weighting</b>	<b>Base Case</b>	<b>Option 1</b> <i>Aligned to previous Victorian DBI scheme</i>	<b>Option 2</b> <i>Bespoke model</i>	<b>Option 3</b> <i>Aligned to QLD scheme</i>
Costs to industry	20%	0	-2	-5	-5
<b>Weighted score</b>		<b>0</b>	<b>-0.4</b>	<b>-1</b>	<b>-1</b>

### 8.3.6.1. Option 1: Aligned to previous Victorian DBI scheme

Option 1 was awarded a score of -2 for its impacts on costs to industry. The costs are not expected to be significant under Option 1 and will largely stem from any minor administrative obligations that are introduced through the scheme. These may include time spent understanding obligations and the scope of coverage, managing the FHWS on behalf of consumers, maintaining records, and responding to claims (if made against them).

There is also a risk of financial exposure through BPC cost recovery for defects that are not rectified. However, because coverage under Option 1 is limited, the likelihood and scale of such recoveries are small. Rectification of defects or non-compliant work is not considered an additional cost, as builders are legally required to meet industry standards and guidelines regardless of the scheme.

### 8.3.6.2. Option 2: Bespoke model

Option 2 was awarded a score of -5 for its impacts on costs to industry. The administrative and compliance obligations are largely similar to Option 1, including managing documentation, understanding coverage, and responding to claims. The key difference is the introduction of a 28-day requirement for builders to respond to notifications with a rectification plan, which adds a structured, time-bound element to the claims process. While overall administrative obligations remain broadly consistent with Option 1, the broader coverage under Option 2 increases the scope of work subject to the FHWS. Fault investigation and rectification costs usually increase as buildings age, since defects become harder to diagnose and repairs more extensive. However, builders are already liable for any defects up to 10 years after an occupancy permit is issued.

Similarly to the financial incentives for improving building work discussed under Criteria 2, the likelihood of cost recovery being sought by the BPC from industry also rises moderately under Option 2, given a higher expected number of claims. As a result, industry may also choose to spend additional time and effort undertaking quality assurance and more proactive documentation during the construction process.

### 8.3.6.3. Option 3: Aligned to QLD scheme

Option 3 was also given a score of -5 for its impact on industry costs. Although Option 3 offers slightly less coverage than Option 2, it features a flexible notice period, where a provisional claim is lodged with the BPC when a building owner notifies the builder of a defect. A “reasonable period” for notifying the builder, under this option, is unprescribed and is flexible on a case-by-case basis.

The lack of a specific timeframe to respond to a notification imposes a significant administrative and resourcing burden on practitioners, as builders must have greater clarity on their obligations so they can prioritise and properly plan ahead for their work, without potentially delaying other projects.

As with Option 2, the financial incentives associated with potential cost recovery from the BPC may encourage builders to spend additional time and consideration on quality assurance through the construction process.



### 8.3.7. Criterion 6: Costs to Government

This criterion evaluates the extent to which the options cause financial or administrative burden for the state Government or regulator. Regulatory burden includes processing more claims. Table 8.7 summarises the scores for this criterion.

Table 8.7: Summary of MCA scores for Criterion 4: Cost to Government

Option	Weighting	Base Case	Option 1 <i>Aligned to previous Victorian DBI scheme</i>	Option 2 <i>Bespoke model</i>	Option 3 <i>Aligned to QLD scheme</i>
Costs to Government	10%	0	-2	-3.5	-3
<b>Weighted score</b>		<b>0</b>	<b>-0.2</b>	<b>-0.35</b>	<b>-0.3</b>

#### 8.3.7.1. Option 1: Aligned to previous Victorian DBI scheme

Option 1 was awarded a score of -2 for its impacts on Government costs. Compared with the base case, the Government assumes higher financial responsibility as the sole provider of the FHWS. While the Government is responsible for paying any claims made by consumers, this cost is expected to be largely offset by premiums paid. The Government also retains the ability to pursue builders and any party responsible for defective work for reimbursement or penalties to recover costs.

There is a modest increase in administrative and resourcing requirements under this option. The BPC will need dedicated staff and systems to manage FHWS claims, which are expected to rise relative to the base case. This may require hiring additional full-time employees or reallocating staff from business-as-usual functions, alongside training and system costs to support the transition. However, as the BPC (previously VMIA) already has experience administering the last-resort insurance scheme, DTP expects some administrative efficiencies in transitioning to the first-resort model. As any incremental costs will largely be funded through premiums paid by consumers, the cost impact to Government is relatively minor across all three options considered.

#### 8.3.7.2. Option 2: Bespoke model

Option 2 was awarded a score of -3.5 for its impacts on Government costs. Like Option 1, the Government is the sole insurance provider and assumes higher financial responsibility than the base case. Broader coverage may increase the likelihood and value of claims, raising financial exposure, although again these costs are partially offset by premiums.

Administrative costs are higher than Option 1 due to more detailed claims lodgement criteria and the BPC's role in monitoring, processing, and notifying builders under the scheme. While rectification and reimbursement processes remain consistent with Option 1, the combination of broader coverage, and more detailed administration results in increased costs.

#### 8.3.7.3. Option 3: Aligned to QLD scheme

Option 3 was awarded a score of -3 for its impacts on Government costs. As with Options 1 and 2, the Government is the sole insurance provider and assumes higher financial responsibility relative to the base case. Coverage and claim timeframes are broader than Option 1 resulting in moderate increases in scheme liability, but slightly narrower than Option 2.

Administrative costs are higher than Option 1 due to the need to manage claims and notifications, though slightly lower than Option 2 because less claims are expected due to the lower maximum amounts and shorter



timeframes for notifying the BPC of an issue. Overall, Option 3 imposes moderate financial and administrative costs on the Government.

## 8.4. Identification of the preferred option

A summary of the MCA scores across all options and criteria is presented in Table 8.8. The result of the MCA shows that Option 2 is the preferred option, achieving the highest weighted score among the evaluated options. This underscores Option 2's strong alignment with the Government's objectives as discussed in section 2.5.

Option 2 provides improved consumer access to the FHWS, consistent with government's policy objectives. It offers broad coverage and the highest maximum claim amounts, while remaining broadly consistent with other Victorian legislation. This option allows consumers to claim for a wider range and value of defective or incomplete work, helping to offset the financial burden to consumers currently associated with rectification under the base case and improving consumer confidence. Option 2 is also expected to improve the quality of building work the most by creating the largest financial and reputational incentives for builders to undertake rigorous quality assurance throughout the construction process.

Given Option 2 has broader coverage, there is an expected increase in administrative cost to the Government associated with a rise in claims relative to the base case.

Table 8.8: Summary of MCA scores for FHWS

Option	Weighting	Base Case	Option 1	Option 2	Option 3
Achievement of consumer protection outcomes	20%	0	4	6	5
Improvement of building quality	20%	0	2	5	4
Consistency	10%	0	3	6.5	5
Cost to consumers	20%	0	-1	0.5	1.25
Cost to industry	20%	0	-2	-5	-5
Cost to Government	10%	0	-2	-3.5	-3
<b>Weighted score</b>		<b>0</b>	<b>0.65</b>	<b>1.50</b>	<b>1.25</b>

## 8.5. Other minor amendments

The Regulations will introduce a \$50 fee for providing an insurance information statement upon request by a consumer. Prospective purchasers of a property, or their representatives such as conveyancers, may request this statement from BPC to confirm whether the property is currently covered by DBI. The proposed fee is only applicable when an insurance information statement is specifically requested. The fee structure is modelled on Queensland's insurance check fee, which recovers the cost for the QBCC to verify whether the home is covered under the QHWS and to disclose any relevant claims history.<sup>124</sup>

As this is a new fee for an optional service, actual demand and corresponding revenue are difficult to estimate at this stage. However, given the relatively modest fee, DTP does not anticipate any significant financial impact on consumers.

<sup>124</sup> Queensland Building and Construction Commission, Insurance search on a property. <<https://www.qbcc.qld.gov.au/home-owner-hub/queensland-home-warranty-scheme/insurance-search-property>>



## 8.6. Impact analysis of first-resort home warranty scheme

As noted in Chapter 3, the quantification of impact in this section of the RIS is presented as an illustrative case study rather than a precise estimate of impact. This approach recognises that the first-resort warranty is a newly introduced scheme with limited operational data and is intended to demonstrate the potential scale and distribution of costs in a transparent way, while acknowledging that a reliable point estimate cannot yet be generated.

The case study models hypothetical increases in insurance claims that may arise as the scheme transitions from a last-resort to a first-resort model. These figures are not exact forecasts but serve to highlight possible outcomes and contextualise the implications of the scheme for different stakeholder groups.

However, uncertainties remain around the frequency and scale of potential claims. These are explicitly acknowledged to ensure transparency and highlight the limitations of available data. The RIS therefore invites stakeholder input to validate assumptions, refine estimates, and identify additional factors that could influence the scheme's impacts.

### REQUEST FOR STAKEHOLDER INPUT

DTP welcomes all stakeholders with any data or information on the likely costs and benefits of the FHWS to provide a submission as part of the RIS consultation process. In particular, DTP would welcome input on the following points for detached homes, townhouses, and Class 2 buildings of up to three storeys:

20. Out of pocket costs currently incurred by consumers in rectifying defective and/or incomplete building work
21. Costs incurred by both consumers and builders for VCAT disputes
22. Costs incurred by consumers and builders relating to defective and/or incomplete work taken to court
23. Any costs and benefits to consumers and builders from extending cover for structural damage to 10 years from the date of contract signing
24. Any additional benefits expected to be gained from the FHWS that have not been considered in the RIS

### 8.6.1. Impacts to Government

The Buyer Protections Act transferred VMIA's domestic building insurance business to the BPC, making the BPC responsible for administering the FHWS. As such, it is anticipated that a majority of the administrative and financial burden arising from the proposed amendments to the scheme would fall on the BPC.

There remains uncertainty regarding the potential increases in claim volumes under a first-resort warranty scheme. Future claim volumes will be influenced by not only the parameters of the preferred option but also by the timing and frequency of claims, the specifics of the assessment process and operational decisions made at the discretion of the BPC. Historical claims data has therefore been used to illustrate the potential impacts from transitioning to first-resort warranty. In this example, references are made to VMIA to depict historical data while future costs are estimated for the BPC who is now responsible for domestic building insurance.

#### 8.6.1.1. Illustrative increases in claim numbers

In 2023-24, VMIA resolved 5,100 DBI claims with payments totalling \$193 million.<sup>125</sup> With the scheme's transition to a first-resort model, DTP anticipates an increase in claim numbers, as more homeowners will become

<sup>125</sup> Victorian Managed Insurance Authority (2024), VMIA 2023-24 Annual Report. <[https://www.vmia.vic.gov.au/sites/default/files/2025-05/2023-2024-VMIA-Annual-Report\\_0.pdf](https://www.vmia.vic.gov.au/sites/default/files/2025-05/2023-2024-VMIA-Annual-Report_0.pdf)>



eligible to claim. Unlike the last-resort scheme, which only covers claims when the builder is missing, deceased, or insolvent, the first-resort warranty expands eligibility to a broader range of circumstances.

To understand the potential impact of expanding eligibility under the first-resort warranty, it is useful to examine historical claims data to determine how many claims were previously rejected because the builder was not missing, deceased or insolvent. This can be used as a useful proxy for how many additional claims may be expected as a result of the changes, acknowledging that the actual number may be higher as some homeowners were likely discouraged from claiming in the first place under the previous scheme, knowing they would be ineligible.

VMIA closed 10,899 claims against registered builders between January 2002 and June 2018.<sup>126</sup> Of these claims, 7,773 were accepted and 3,126 were denied. Claims were denied due to the following reasons:

- Builder found: 218 claims (6.9% of denied claims)
- Builder not dead: 9 claims (0.3% of denied claims)
- Builder not insolvent: 741 claims (23.3% of claims)
- Other reasons<sup>127</sup>: 2,158 claims (69.1% of claims)

A total of 968 claims, representing 30 per cent of denied claims, were rejected due to the builder not being insolvent, dead or disappeared. Under the FHWS, these cases would now likely be eligible under the proposed amendments as long as they met other criteria, such as being claimed within the allowed time frame and confirmed as genuine defect by the insurer.

Table 8.9 below presents the number and average cost per claim by type of claim between January 2002 and June 2019. The average cost per claim to VMIA is the net of payments to claimants and third parties for costs such as investigations, undertaking structural assessments and legal fees, less money recovered from builders, suppliers and other parties. Non-completion of work presents the highest average cost to the insurer, followed by rectification of a structural defect.

Table 8.9: Number and average cost of claims accepted by VMIA between January 2002 and June 2019.

Claim type	Number of accepted-finalised claims	Proportion of claims	Average cost to VMIA per claim*
Failure to commence	236	3%	\$23,000
Failure to complete	2,421	31%	\$79,000
Structural defect	3,632	47%	\$63,000
Other (non-structural) defect	1,484	19%	\$42,000
<b>Total</b>	<b>7,773</b>	<b>100%</b>	<b>\$62,000</b>

Source: Essential Services Commission (ESC): Final DBI Performance Report 2018-19 \*These figures have been inflated to 2024-25 dollars using the Reserve Bank of Australia's inflation calculator and rounded to the nearest '000.

Assuming a similar proportion of denied claims for builders not dead, disappeared or insolvent in 2023-24, the BPC would need to assess an additional 1,530 claims for the year. Table 8.10 below shows the estimated incremental costs to BPC assuming that these additional claims have the same distribution as in Table 8.9 above. It is important to emphasise that the figures presented below are indicative only, based on publicly available information. Actual claims costs may differ, and the estimates are intended solely to provide a sense of the potential scale of the impact.

<sup>126</sup> Essential Services Commission (2019), Victoria's Domestic Building Insurance Scheme- performance report 2018-19. [https://www.esc.vic.gov.au/sites/default/files/documents/Victoria%27s%20domestic%20building%20insurnace%20scheme%20-%20performance%20report%202018-19\\_0.pdf](https://www.esc.vic.gov.au/sites/default/files/documents/Victoria%27s%20domestic%20building%20insurnace%20scheme%20-%20performance%20report%202018-19_0.pdf)

<sup>127</sup> Other reasons include incorrect insurer, claim not made in time, not deemed a defect, no loss and owner did not proceed.



Of the estimated \$96 million per year in costs associated with additional claims paid out, approximately 96.5 per cent would represent a transfer between homeowners, builders and the BPC. This reflects payments between parties rather than a net cost to the system and is discussed further in the following section (section 8.5.2). Scheme liability is expected to be funded, at least in part, through premiums received. Further, the BPC may choose to recover costs from the builders who failed to rectify the defect being claimed.

Processing these additional claims would also create new administrative burden for the BPC. Assuming a claims handling expense of 3.5 per cent of claim payments,<sup>128</sup> the administrative cost of managing the additional 1,530 claims is estimated at \$3.3 million. This cost is the key incremental cost over and above the base case. However, the increase in administrative costs to the BPC could be offset to a certain extent by a reduction in costs incurred by other areas of the Government in relation to domestic building disputes. For instance, a domestic dispute case in VCAT costs an average of \$3,404 for VCAT to resolve.<sup>129</sup> A reduction in the number of cases that go to VCAT due to the first resort insurance scheme could therefore help offset costs to Government

Table 8.10: Potential incremental costs to BPC per year (rounded to nearest '0,000)

Claim type	Number of incremental claims	Average incremental cost to BPC per claim	Estimated total incremental cost of claims paid out*
Failure to commence	46	\$23,000	\$1,100,000
Failure to complete	477	\$79,000	\$37,600,000
Structural defect	715	\$63,000	\$45,000,000
Other (non-structural) defect	292	\$42,000	\$12,300,000
<b>Total</b>	<b>1,530</b>	<b>\$62,000</b>	<b>\$96,000,000</b>

Source: Deloitte calculations based on ESC data \*These figures have been inflated to 2024-25 dollars using the Reserve Bank of Australia's inflation calculator and rounded to the nearest '0,000.

### 8.6.2. Transfer of costs between consumers, builders and BPC

Under the current last-resort DBI scheme, consumers can only access DBI if the builder has died, disappeared, become insolvent or failed to comply with a tribunal or court order. In instances where the builder is still in business, consumers often must rely on more expensive methods of dispute resolution such as VCAT or court or have to fund the cost of completing or rectifying the problematic building work themselves. The FHWS would extend access to building insurance to these customers and would result in a redistribution of costs between homeowners and builders.

The actual cost burden on builders may be distributed through several pathways. First, builders may voluntarily undertake the necessary work upon initiation of a claim by the customer. Alternatively, the builder could be compelled to rectify the work following the issue of a rectification order (see Chapter 10). In instances where a builder disregards a rectification order and refuses to perform the required work, the BPC would pay out the claim and subsequently pursue compensation from the builder through cost recovery action. The frequency with which each of these scenarios would occur remains unknown at this stage. It is likely that some rectification costs incurred could be offset by premiums received while some would be liable for recovery from the builder. This introduces another layer of complexity to estimate cost impacts to builders.

<sup>128</sup> Victorian Managed Insurance Authority (2024), Annual Report 2023-24. <[https://www.vmia.vic.gov.au/sites/default/files/2025-05/2023-2024-VMIA-Annual-Report\\_0.pdf](https://www.vmia.vic.gov.au/sites/default/files/2025-05/2023-2024-VMIA-Annual-Report_0.pdf)>

<sup>129</sup> Victorian Auditor General's Office (2024), Domestic Building Oversight Part 2: Dispute Resolution. <[https://www.audit.vic.gov.au/sites/default/files/2024-06/20240619\\_Domestic-Building-Oversight-Part-2-Dispute-Resolution.pdf](https://www.audit.vic.gov.au/sites/default/files/2024-06/20240619_Domestic-Building-Oversight-Part-2-Dispute-Resolution.pdf)>



An additional challenge in estimating cost impacts for builders is that rectifying defects tends to be less expensive when addressed promptly. Under a first resort insurance scheme, defects would likely be fixed more quickly than under a last resort scheme, potentially lowering the actual rectification costs incurred by builders. This would result in a net benefit to society as the avoided cost of rectification for consumers would be higher than the builder's actual cost for rectification. However, due to limited availability of data to quantify this net benefit with accuracy, this illustrative example conservatively assumes that the actual costs incurred by builders are equivalent to the avoided rectification costs to consumers. This therefore results in a net zero impact from the transfer of rectification costs between builders and consumers.

Some additional costs to builders would be offset by reduced costs of dispute resolution through more expensive methods such as VCAT or court cases. There is limited data available to support an estimate of these avoided costs.

The dispute resolution costs for builders may be lower than those incurred by consumers. This is because consumers could require specialised technical and legal advice to navigate the process effectively, resulting in higher out-of-pocket expenses. In contrast, builders typically would have access to internal expertise and legal resources, which would enable them to manage disputes more efficiently. Builders who are members of professional associations may also have the option of seeking advice from those organisations. On the other hand, consumers may also struggle with understanding procedural requirements and collecting the necessary evidence, particularly if builders are uncooperative, which can further increase the time and cost involved. For the purposes of this case study, it is therefore assumed that builders incur a cost of \$7,000 for dispute resolution under the base case, to reflect the assumption that dispute resolution costs to builders may be lower than the \$10,000 to consumers (see section 8.5.2.1).

#### 8.6.2.1. Administrative costs

It is not anticipated that consumers will face significant increases in administrative costs due to the introduction of the FHWS. Consumers would need to spend some time and effort to understand changes to the insurance scheme. This is expected to be a minor cost only. Consumers newly eligible to claim insurance, who would not have qualified under the base case, will incur additional costs associated with the application process.

DTP anticipates that any incremental administrative costs would likely be offset by the avoided costs (or savings) to consumers of going through more expensive dispute resolution processes such as VCAT or court cases. These consumers would therefore experience a reduction in costs of disputes.

Dispute resolution through VCAT results in significant costs for consumers. Consumers are required to pay fees to have their matter heard. The average VCAT fee for matters relating to the DBC Act was \$607 in 2022-23.<sup>130</sup>

Consumers may also incur additional costs in preparing for the VCAT process such as securing expert reports and legal advice. There is limited data available on these costs, but these are expected to be significant in terms of time and effort. Expert reports can cost more than \$2,500<sup>131</sup> while legal fees can cost more than \$200 per hour.<sup>132</sup> The actual costs would depend on a range of factors including the complexity of the case, the volume of defects involved, and the value of rectification required.

In addition to financial costs, consumers often face long waiting times before their case is heard at VCAT. As is discussed in section 2.2.1, the average wait time between application and hearing for building and

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<sup>130</sup> Victorian Auditor General's Office (2024), Domestic Building Oversight Part 2: Dispute Resolution. <[https://www.audit.vic.gov.au/sites/default/files/2024-06/20240619\\_Domestic-Building-Oversight-Part-2-Dispute-Resolution.pdf](https://www.audit.vic.gov.au/sites/default/files/2024-06/20240619_Domestic-Building-Oversight-Part-2-Dispute-Resolution.pdf)>

<sup>131</sup> The Property Inspectors, The Property Inspectors Fees. <<https://thepropertyinspectors.com.au/fees/>>

<sup>132</sup> Pentana Stanton Lawyers (2025), Lawyer fees in Melbourne explained for everyone. <<https://pentanastanton.com.au/lawyer-fees-in-melbourne-guide/>>



construction related cases at VCAT is 52 weeks.<sup>133</sup> During this time, consumers would likely experience stress and inconvenience from living in properties with unresolved defects or unfinished building work. This prolonged uncertainty would impact their daily lives and overall well-being. Additionally, the ongoing presence of defects may lead to further deterioration of building quality, which would further increase the cost of rectification.

A conservative assumption of \$10,000 has been assumed for this case study.

#### 8.6.2.2. Impacts on premiums

Expanding the first-resort FHWS' scope would lead to an increase in expected claims, which could increase capital and reinsurance requirements for the BPC. Premiums may increase in an integrated system, meaning the BPC is able to seek the rectification of most claims rather than providing financial compensation. Furthermore, the exclusion of developers from being able to claim under the FHWS offsets additional costs. Premium rates are determined through an actuarial process that considers the overall risk profile of the building sector, rather than being set by a single legislative change.

Premiums will be reviewed annually by the BPC and are set with consideration to the following:<sup>134</sup>

- Break-even premiums: the total expected cost for the insurer of issuing a certificate or policy, considering the account claim costs and all expenses
- Book premiums: the standard rates charged to customers. These are typically based on the break-even premium, but a factor may be applied to differentiate between projects and policies based on characteristics such as builder's risk rating.

As the sector is undergoing substantial reform, any adjustments to premiums would reflect the collective impact of these broader changes in risk, rather than being attributed solely to the introduction of the FHWS.

#### 8.6.3. Break-even analysis

This section estimates the volume of dispute resolution that must be avoided through VCAT or court cases to break even from the incremental administrative costs that would be incurred by the BPC. Table 8.11 summarises the VCAT costs incurred by the Government, builders and consumers.

Table 8.11: Estimated VCAT costs incurred by stakeholders in the base case

Stakeholder	Cost per VCAT dispute
VCAT	\$3,400 <sup>135</sup>
Builders	\$7,000 <sup>136</sup>
Consumers	\$10,000 <sup>137</sup>
<b>Total</b>	<b>\$20,400</b>

The introduction of the FHWS would impose an estimated annual incremental administrative burden of \$3.3 million on the BPC. If one VCAT dispute is estimated to cost stakeholders \$20,400, approximately 168 VCAT cases would need to be avoided each year for the administrative costs of the scheme to break even.

<sup>133</sup> Victorian Civil and Administrative Tribunal, How long a VCAT case takes? <<https://www.vcat.vic.gov.au/the-vcat-process/when-vcat-starts-a-case/how-long-vcat-case-takes>>

<sup>134</sup> Essential Services Commission (2019), Domestic Building Insurance Premium Validation Review. <<https://www.esc.vic.gov.au/other-work/domestic-building-insurance/domestic-building-insurance-premium-validation-report>>

<sup>135</sup> Victorian Auditor General's Office (2024), Domestic Building Oversight Part 2: Dispute Resolution. <[https://www.audit.vic.gov.au/sites/default/files/2024-06/20240619\\_Domestic-Building-Oversight-Part-2-Dispute-Resolution.pdf](https://www.audit.vic.gov.au/sites/default/files/2024-06/20240619_Domestic-Building-Oversight-Part-2-Dispute-Resolution.pdf)>

<sup>136</sup> Deloitte estimate

<sup>137</sup> Deloitte estimate



Evidence suggests that around 12 per cent of cases handled by DBDRV progress to VCAT.<sup>138</sup> Based on an average of 5,780 cases resolved by DBDRV (including fully resolved and withdrawn cases), approximately 700 building-related disputes currently reach VCAT each year. This means that around a quarter of all VCAT cases would need to be avoided each year to offset the incremental costs, or alternatively, the average cost per VCAT case would need to be reduced by 25 per cent.

The feasibility of achieving this reduction depends on the effectiveness of the FHWS in resolving disputes earlier or incentivising building practitioners to comply with their obligations, thereby reducing escalation to VCAT. DTP considers it highly unlikely that consumers will need to approach VCAT to resolve disputes with the builder after making a claim through the FHWS. Where the BPC finds that a claim has merit, it will either issue an RO compelling the builder to rectify the defect or would organise rectification works directly. This therefore effectively removes the need for consumers to pursue the builder through VCAT. If the BPC determines that a claim does not have merit, consumers will have the right to challenge this decision at VCAT. Therefore, overall DTP anticipates a reduction in the number of consumers versus builder cases at VCAT. While it is not currently feasible to estimate the exact number of cases that consumers may bring against the BPC at VCAT, it is likely that a quarter of the current cases that go to VCAT will be avoided thereby enabling the scheme to break even.

The estimates provided in this case study are indicative benchmarks rather than precise forecasts, providing a practical sense of the scale of impact required for the scheme to offset its administrative costs.

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<sup>138</sup> Victorian Auditor General's Office (2024), Domestic Building Oversight Part 2: Dispute Resolution.  
<[https://www.audit.vic.gov.au/sites/default/files/2024-06/20240619\\_Domestic-Building-Oversight-Part-2-Dispute-Resolution.pdf](https://www.audit.vic.gov.au/sites/default/files/2024-06/20240619_Domestic-Building-Oversight-Part-2-Dispute-Resolution.pdf)>



## Part 3: Rectification orders (ROs)

### Approach to assessment of options relating to ROs

The proposed Regulations will set out certain requirements for ROs, focusing solely on minor operational details intended to improve their effectiveness. Given the limited scope, a detailed options analysis was not considered necessary. This section outlines the rationale behind the proposed changes and discusses their anticipated impacts, which are expected to be immaterial.

## 9. Rectification orders

### 9.1. Proposed regulations

The scope and requirements of an RO are described within the Buyer Protections Act itself. However, regulations can provide further clarity to establish the exact information that is prescribed within an RO, and the details that will be available to the public on an online register when an RO is issued.

#### 9.1.1. Additional information for inclusion in a Rectification Order

When an RO is issued by the BPC, section 75H of the Buyer Protections Act requires it to contain specific information, including:

- A statement describing the action the building practitioner must take (or not take) to fulfil the RO.
- A statement describing any standards that must be met when taking the action.
- A statement describing any directions the recipient must follow to fulfil the order.
- A statement describing any and all other things the recipient must do to fulfil the order.
- The date by which the above must be complied with by the recipient.

The proposed regulations will prescribe that an RO must contain any conditions specified by the BPC in accordance with section 75E(2). This option eliminates any risk that relevant conditions are not contained in the RO and are communicated effectively to the recipient of the RO.

#### 9.1.2. Details to be published online

Section 175D of the Building Act sets out that the BPC must publish certain prescribed information on the Register of Building Practitioners, and may publish other details contain on the Register.<sup>139</sup> This information must be published on the BPC's website. The section allows for the publication of any information on the Register of Building Practitioners that is prescribed in regulation. This provides an opportunity for details of ROs issued to be published on the register.

The publication of ROs would provide several benefits. It would provide additional incentive to builders to have a high quality of work and to comply with the ROs when they are issued. It would also increase industry transparency, which is helpful to both consumers and industry members. It will enable these parties to see whether a builder has been issued an RO and whether it has been complied with to make informed choices when choosing a builder.

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<sup>139</sup> The Register of Building Practitioners is a list maintained by the regulator of all registered building practitioners recognised by the regulator itself. The register allows consumers to check if a person is registered with the BPC, has any conditions on their registration and supports them finding a building practitioner to contract, or to check if a building practitioner has any disciplinary action taken against them.



Similar registries exist in both New South Wales and Queensland in their building sectors and in Victoria in other areas such as the legal profession and education. The registers differ in the information provided to the public, as well as how it is presented.

Proposed regulations will require that the Regulator records information about all ROs on the existing Building Practitioner Register and gives them discretion regarding the publishing of those details on its website. The BPC will also have operational oversight as to what information will be published. This could include the status of the order or the address of the building; however, this will be developed at later stages by the BPC during operational policy making. Publishing of details on the register could provide consumers and industry with a full history of ROs issued to building practitioners, allowing them to make informed choices when engaging with building practitioners. This supports the position of the BPC as a consumer-focused regulatory body and would support public confidence in their ability to protect consumers from builders who repeatedly face enforcement action in respect of defective work.

## **9.2. Impact analysis**

There are only minor costs expected to industry or consumers regarding the proposed Regulations relating to ROs. Industry may see minor benefits as a result of the regulations, as the increased detail that will be prescribed will allow them to have the most comprehensive and clear understanding of what needs to be rectified.

Consumers engage with the BPC in order to get an RO issued, but they are not involved in either the issuance or the publishing of the RO and therefore see no costs from the proposed Regulations. However, there may be some minor benefits for consumers as increasing the clarity of instruction and level of detail in the RO may lead to better outcomes for the consumer. Consumers and industry will also be able to make more informed choices when engaging a builder as they are able to understand their rectification history which will lead to better outcomes for both parties.

While the proposed Regulations will impose some administrative burden on the Government and the regulator due to the need to maintain additional details on the Register, it is not expected to be significant.



## 10. Competition and small business impacts

This chapter assesses the small business and competition impacts of the preferred options.

Small businesses can experience disproportionate impacts from regulations. Possible reasons for this may be that small businesses have limited resources to understand and comply with regulatory requirements, compared to larger businesses. Small businesses may also lack the economies of scale that allow fixed regulatory costs to be spread over a larger customer base.

The Victorian Guide to Regulations also requires a RIS to assess the impact of regulations on competition. Regulations can affect competition by preventing or limiting the ability of businesses and individuals to enter and compete within particular markets. In undertaking this assessment, we have considered questions such as:

- Is the proposed measure 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 proposed measure?
- Will the costs/benefits associated with the proposed measure affect some firms or individuals substantially more than others (e.g. small firms, part-time participants in occupations etc.)?
- Will the proposed measure restrict the ability of businesses to choose the price, quality, range or location of their products?
- Will the proposed measure 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 proposed measure?

An analysis of the impact on small businesses and competition from the DBS, FHWS, ROs is provided in Table 11.1 below. In summary, the proposed regulatory amendments are expected to have moderate impacts on competition. Some changes may disproportionately affect small businesses, and where this is likely, the impacts have been outlined for each reform area.

### REQUEST FOR STAKEHOLDER INPUT

As with the impact analysis in the previous chapters, uncertainty persists in estimating the impacts of the proposed amendments on small business and competition. Given this uncertainty, DTP invites submissions with views on the likely competition and small business impacts of the proposed amendments.

In particular, DTP would welcome input on the following points related to the small business and competition impacts:

25. What proportion of developers for residential apartment buildings of four storeys and above can be categorised as small businesses?
26. Are there any impacts to small businesses and competition that are not captured in Table 11.1.



Table 11.1: Competition and small business impact assessment

Proposed regulatory amendments	Impact on small businesses	Impact on competition
<p><b>Developer bond scheme:</b></p>	<p>It is not currently known what proportion of developers can be classified as small businesses. The introduction of the DBS would introduce costs for all developers. These include administrative costs, financial costs of securing the bond amount, and compliance costs. As the value of the bond is tied to the cost of the building work, in dollar terms, larger developers who work on bigger projects would likely have to hold a larger bond. However, the costs of the bond would be felt more acutely by small businesses who could be operating with tighter margins and more limited access to capital. The bond requirement could significantly constrain cash flow, limiting smaller developers' capacity to invest in new projects or cover operational expenses compared to larger firms. The 3.5-year bond period intensifies this burden by tying up capital that could otherwise support growth or provide financial flexibility.</p> <p>Additionally, administrative requirements may impose disproportionate costs on small businesses, which typically have less capacity to absorb compliance overheads compared to larger firms with dedicated compliance teams.</p> <p>However, the actual scale of the impact would depend on how many developers of apartment buildings of four storeys and above are classified as small businesses.</p>	<p>The introduction of the DBS is likely to create competition impacts, particularly impacting smaller developers and those with limited financial resources.</p> <p>Meeting the bond expense could potentially deter new entrants and strain existing small firms, potentially leading to market exit and increased market concentration in favour of larger, well-capitalised developers.</p> <p>Small firms and new entrants would feel the bond's impact more sharply, as tying up a significant portion of project costs could restrict their working capital and potentially limit growth opportunities. Larger developers could absorb these costs with less operational disruption. The bond requirement may indirectly limit the ability of smaller or budget developers to pursue larger or more complex projects, as the bond is proportional to the cost of the building work.</p> <p>Requiring all developers to issue a bond for defect rectification may help establish a more level playing field by shifting the focus of competition towards quality as a key differentiator. Developers who consistently build with fewer defects may benefit from a stronger reputation and a reduced risk of bond claims, giving them a competitive advantage based on performance rather than cost-cutting.</p>



<b>Proposed regulatory amendments</b>	<b>Impact on small businesses</b>	<b>Impact on competition</b>
<p><b>First-resort Home Warranty Scheme</b></p>	<p>The proposed FHWS Regulations create compliance incentives for all building practitioners while reducing the burden on consumers. In some cases, this requires the building practitioner to rectify defects at their own cost, while in other cases the BPC may recover costs from the practitioner after the claim has been finalised. For smaller businesses and sole traders, which generally have more limited financial and operational capacity, these requirements may represent a proportionally greater incentive to comply with the Regulations and broader industry standards.</p> <p>It is important to note that this primarily affects non-compliant practitioners. Building practitioners who meet their obligations are unlikely to experience additional impacts, as the scheme is designed to encourage compliance and ensure that consumers are protected from the costs of rectifying defective work themselves.</p>	<p>Ensuring consistency across different domestic building insurance schemes is an important consideration, as each state currently operates under different models. If the FHWS is perceived as relatively complex or expensive, there is a possibility that builders from other states could be discouraged from expanding into Victoria.</p> <p>Conversely, the scheme may also have positive effects on competition by incentivising all building practitioners to meet required standards and comply with industry codes. Behavioural change by encouraging higher-quality building work is expected to raise the overall baseline of performance across the sector. This creates a more level playing field for compliant practitioners, strengthening market signals that reward professionalism and reliability.</p> <p>Over time, practitioners who fail to meet standards or engage in unsatisfactory practices may exit the market, while those who consistently deliver quality work may gain a competitive advantage. In this way, the scheme has the potential to both improve industry standards and support healthy competition among building practitioners.</p>
<p><b>Rectification orders</b></p>	<p>The Proposed Regulations are unlikely to have a disproportionate impact on small businesses and / or sole traders.</p>	<p>The Proposed Regulations are unlikely to have an impact on competition in the sector.</p>



## 11. Implementation and evaluation

This chapter outlines the actions that the Government will undertake to implement and assess the effectiveness and efficiency of the proposed regulatory amendments.

### 11.1. Implementation

The key questions to be considered for the implementation of the proposed regulatory amendments are:

- What needs to be done?
- When will it be done?
- Who will do it?
- Who will monitor implementation, including risk management and identification?

These questions are discussed in Table 12.1.

Table 12.1: Implementation tasks and timings

Task	Timing
Determine key organisational impacts and undertake necessary change management activities (i.e. operating model for process changes, system and platform changes, prepare new insurance policies communication, training, develop guidelines and guidance etc.)	Prior to commencement of regulatory changes
Transition of builders insured by private providers to the BPC	To occur before the commence of the FHWS
Closure of the private DBI market	To occur in the first half of 2026
Determine premiums and issue Premiums Order	To be set after the regulations are settled to provide sufficient notice to industry
Develop and deliver education and a range of communication activities to promote awareness of the Regulations and new obligations within the industry	Education and information would need to be delivered in time to prepare the industry for the commencement of the regulatory reform
Prepare and send formal communication informing stakeholders that proposed regulatory changes have come into effect	Upon commencement of the Regulation DTP and the BPC will begin a targeted marketing campaign to communicate changes to stakeholders
Formally communicate the changes to the public	DTP and BPC to communicate changes through education and awareness campaigns
Update the BPC website and other communication channels (such as social media) to include information about the regulatory reforms and what they mean	Upon commencement of the changes or as appropriate



Additional staff and upskilling of staff at the BPC	Staff will need training to manage the new systems. Additional resources may be required to manage insurance claims and the rectification process. These field resources will likely ramp up over a period of 2-5 years.
Develop an evaluation plan and data strategy	Upon commencement of the Regulations and ongoing.

### Implementation timeline

DTP expects that the proposed Regulations will be finalised in early 2026, with anticipated commencement by 1 July 2026. Finalising the Regulations is the first step in implementing greater consumer protections in the Victorian building sector. DTP and the BPC, along with key stakeholders, will continue to engage and participate in further work to ensure the industry is informed of and prepared for the Regulations and the changes they will bring. The Regulations will have transition period before becoming active once finalised, which will allow industry and consumers sufficient time to prepare for and understand their obligations under the Regulations.

### Stakeholder communications

BPC is responsible for notifying stakeholders and ensuring they are aware of new obligations and processes in the Regulations. BPC's primary mechanism for communicating these changes will be through a stakeholder engagement and communication plan. Through this plan, BPC will identify the affected stakeholders, what their interests are likely to be, and how the stakeholder relationships are to be managed. It would include a communications strategy to ensure that all stakeholders are aware of the reforms and receive appropriate information to support them. While the BPC is still in the process of finalising its implementation plan, it is likely that this stakeholder engagement and communications plan approach would include a range of communication activities to provide general education, awareness and guidance about the new legislation, who it applies to, and how it works. The communication activities may include, but are not limited to, electronic Direct Mail (eDM), website content, social media, emails, information sheets, stakeholder packs and frequently asked questions. The target audience is expected to include consumers, owner corporations, industry peak bodies, builders, developers, and relevant building surveyors. Throughout the development of the Regulations, DTP undertook targeted consultation with these stakeholders.

### Who will monitor implementation?

Monitoring of implementation, including identification and management of implementation risks, will be undertaken by the BPC.

The specific implementation requirements will be mapped to guide any necessary operational changes needed across all relevant business units within BPC. This will ensure all implementation requirements are in place for the reforms to be implemented. This will include reviewing and/or amending current policies, procedures, systems, entitlements, technology uplift, staff training where relevant, internal reviews, dispute management and data requirements, including change management strategies to ensure BPC staff are informed and trained in a timely manner.

Consideration will also be given to any required changes or creation of new external guidance, education pieces, or information documents for publication to BPC's website, including scripts for staff to assist with any enquiries from practitioners, building surveyors, and applicants.



## Implementation risks

The BPC has undergone a significant period of change to establish itself as an integrated regulator. There is a risk that the BPC may have limited operational capacity to ensure the implementation of reforms is communicated clearly to industry.

## 11.2. Evaluation strategies

The proposed Regulations assessed in this RIS are considered high-impact according to the Victorian Guide to Regulation, and so trigger the requirement for a mid-term evaluation. The Building Regulations 2018, which will propose requirements relating to ROs, are due to sunset in 2028. However, given the proposed amendments regarding ROs will have in effect for only approximately two years by the time of the scheduled sunset review in 2027-28, DTP considers that a mid-term evaluation of these measures would be premature and unlikely to produce meaningful or reliable outcomes. The DBS and FHWS will be introduced through standalone regulations that will sunset in 2036. A mid-term evaluation of these Regulations will be conducted in 2031.

As the proposed Regulations form part of the Victorian Government's broader building reform agenda, the BPC will support DTP in evaluating the effectiveness of the buyer protection schemes over the forward period. This will be a holistic evaluation, taking into consideration the economic, environmental and social impacts, as well as any unintended consequences, arising from the introduction of the DBS, FHWS, and ROs.

In undertaking the evaluation, DTP and BPC actions will include:

- developing key evaluation questions
- establishing an outcomes logic framework, identifying the key outcomes to be achieved over the short, medium and long term
- establishing baseline data, prior to the introduction of the buyer protection schemes
- identifying key performance indicators and measures to track progress towards outcomes
- developing a data collection strategy
- reporting on evaluation findings.

### Available data to inform evaluation

As the regulator, the BPC will be best placed to collect data on the uptake of the schemes, including:

- the number of development bonds and the number and size of claims against them,
- the number of insurance policies and the number and size of claims against them,
- the number of ROs issued by the BPC
- the average number and types of building issues identified, and the costs to rectify or complete them.

Stakeholder consultation will also form a valuable aspect of data collection to inform evaluation of the buyer protection schemes. Interviews and surveys will be conducted by DTP and the BPC with key government and external stakeholders who are impacted by the proposed requirements, such as peak construction bodies and consumer representatives. This will enable the collection of information regarding, for example:

- stakeholders' understanding of, and interaction with, the new requirements
- understanding of any issues encountered in implementation, or unintended consequences
- monitoring reasons for rates of non-compliance, including for example financial costs or labour shortages
- understanding of administration, compliance and enforcement costs.



**REQUEST FOR STAKEHOLDER INPUT**

27. DTP seeks advice from stakeholders on relevant data sources that may be used in the evaluation of the proposed Regulations.



## Appendix A: Recent inquiries and other reforms in the Victorian building sector

In recent years, the building sector has been the subject of several comprehensive inquiries and reviews, both in Victoria and nationally. This section focuses on the Expert Panel Review and the Building Confidence Report by Shergold and Weir. Other reviews have been summarised below in Table A.2. Table A. 2: Recent inquiries into the Victorian building sector and its governance

### Expert Panel Review

In November 2019, the Victorian Government appointed an independent Expert Panel to conduct a comprehensive review of the Victorian building legislative and regulatory system (the Expert Panel Review). The review was established to address risks of regulatory and industry failure and to modernise the legislative and regulatory framework, to reflect contemporary building design and construction practices that support a thriving construction sector.

The original panel consisted of:

- Anna Cronin, then Commissioner for Better Regulation and Red Tape Commission, who served as Panel Chair until early 2024, when she was appointed Commissioner of the Victorian Building Authority on 31 March 2024.<sup>140</sup>
- Dame Judith Hackitt, who led the 2017 Independent British Government review into the regulatory system for high rise buildings after the Grenfell Tower fire.
- Lauren Solomon, the then CEO of the Consumer Policy Research Centre.
- Melanie Fasham, past President of the Master Builders Association of Victoria and member of the Building Regulations Advisory Committee.
- Dr Gerry Ayers, Health and Safety Manager of the Construction, Forestry, Mining and Energy Union – Victorian/Tasmanian branch.
- Professor Ian Bailey AM SC, the Founding Chair of the Society of Construction law Australia and a professorial fellow at the Melbourne Law School.

In 2024, following the submission of the Stage Two Report, Dan O'Brien, CEO of Cladding Safety Victoria, was appointed as Chair of the Expert Panel for Stage Three.<sup>141</sup> Also in 2024, Gemma Varley PSM, former Chief Parliamentary Counsel, was appointed to the Expert Panel.<sup>142</sup> The Panel's composition remained unchanged.

The Expert Panel Review found that changes to the Victorian building industry over the previous decade have focused on specific issues rather than system-wide reform, and the regulatory framework has not kept pace with the changes in the building industry.<sup>143</sup> The Expert Panel undertook the Review in three stages.

- *Stage One*: This stage focussed on practitioner registration, building approvals, regulatory oversight (including roles and responsibilities of key decision makers), and consumer protection. Highlighting gaps in the systems and noting that it "does not reflect contemporary best practice regulation."
- *Stage Two*: This stage was delivered in November 2023 and included 14 recommendations to Government focused on industry accountability, improved building information, dispute resolution and building approvals, compliance, additional enforcement powers, corporate registration, introducing a statutory

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<sup>140</sup> Delivering A Trusted Building Regulator. Victorian Government. (March 2024). <<https://www.premier.vic.gov.au/sites/default/files/2024-03/240328-Delivering-A-Trusted-Building-Regulator.pdf>>

<sup>141</sup> Better Regulation Reviews. Victorian Government. (March 2024). <<https://www.vic.gov.au/better-regulation-reviews>>

<sup>142</sup> *ibid*

<sup>143</sup> Expert Panel (2022), Expert Panel's comprehensive review of Victoria's building system stage one report. <<https://www.vic.gov.au/sites/default/files/2023-03/Expert-Panel%E2%80%99s-Comprehensive-Review-of-Victoria%E2%80%99s-Building-System-Stage-One-Report-to-Government.pdf>>



duty of care, and building maintenance. It explored extending consumer protection by increasing accountability and compliance of developers and builders through measures such as insurance and dispute resolution and prevention reform.

- *Stage Three:* in the final stage, the Expert Panel was asked to advise on a new legislative framework for Victoria's building system.

In the Stage two report, the Expert Panel recommended increased oversight and protection for residential apartments through the introduction of a DBS and requiring developers to engage an agent to regularly be on site for prescribed building projects.<sup>144</sup> The Panel also recommended extending accountability mechanisms to developers, builders and other parties. Furthermore, the Expert Panel recommended establishing a framework to implement a mandatory decennial liability insurance scheme for certain residential buildings. The Expert Panel's rationale for these recommendations is discussed in Chapter 2.

Table A.1: Themes, findings and recommendations from stages one and two of the expert panel review reports

Stage One		
Theme	Finding	Recommendation
Regulatory oversight	The building regulatory system is outdated, with significant disconnects between current industry practices and regulatory frameworks. There is a need to modernise legislation to align with contemporary construction practices.	Oversight needs to be strengthened. This should be done by formalising and enhancing the role of the State Building Surveyor and establishing a statutory Commissioner for Building Consumers.
Consumer protection	Consumers face challenges due to complex regulatory systems and inadequate representation and advocacy. Many consumers are unaware of their rights and responsibilities, leading to widespread issues during construction and maintenance.	There is a need for increase consumer protection and representation in the industry. There should be a requirement for building owners to be provided with a building manual, and a centralised consumer information service should be established.
Practitioner accountability	There are gaps in practitioner accountability, with unregistered practitioners posing risks to consumers. The current system lacks effective oversight and enforcement mechanisms.	Registration and licensing schemes should be expanded to strengthen accountability and to develop competence frameworks for building practitioners.
Building approval processes	The building approvals process is insufficiently robust, with conflicts of interest and inadequate checks and balances noted as key issues	A new system needs to be introduced for auditing building surveyors. It should focus on conflicts of interest and documentation quality.
Data sharing and collection	Data sharing is required to enable comprehensive capture of trends	Through the report, recommendations were made to improve data collection,

<sup>144</sup> Expert Panel (2023), Expert Panel's comprehensive review of Victoria's building system stage two report. <<https://www.vic.gov.au/sites/default/files/2023-11/Expert-Panel%27s-Comprehensive-Review-of-Victoria%27s-Building-System-Stage-Two-Report-to-Government.pdf>>



	and patterns in the building industry and respond appropriately	information sharing and documentation quality practices of the building industry.
<b>Stage Two</b>		
<b>Theme</b>	<b>Finding</b>	<b>Recommendation</b>
Accountability	There is a need to extend accountability mechanisms to developers	There is a need to define the role of developers in legislation. A Developer Bond Scheme should be introduced for high-risk projects
Compliance	There is a need to improve compliance and the ability to enforce regulation in the industry.	Regulatory tools and powers that address compliance should be expanded and enforcement activities need to be more transparent.
Dispute resolution	Existing frameworks do not protect consumers and can be time consuming.	Develop a more efficient dispute resolution system by increasing the use of technical assessments and ROs
Insurance	Existing frameworks do not protect consumers adequately.	Establish mandatory decennial liability insurance for certain residential buildings.

Source: Expert Panel's Comprehensive Review of Victoria's building system Stage One Report; Expert Panel's Comprehensive Review of Victoria's building system Stage Two Report

## Building Confidence Report

In 2017, the Building Ministers Forum commissioned an independent report to assess the effectiveness of compliance and enforcement systems for the building and construction industry across Australia.<sup>145</sup> The Shergold and Weir Building Confidence Report made 24 recommendations across all Australian jurisdictions covering a range of areas, including (but not limited to):

**emphasise the importance of inspection regimes:** Highlighted the benefits associated with a greater number of mandatory inspections given the varied positions nationally. Furthermore, the lack of accredited suitable persons to undertake this work was noted.

- **Roles and responsibilities of regulators:** the report identified significant fragmentation across and within jurisdictions. As a result, this created inconsistencies and a barrier to efficiency and compliance in the building sector.
- **The need for stricter accreditation requirements:** the report raised concern about the independence and rigour of certification processes. The report advocated for reform to increase accountability and transparency in the certification process.
- **Insufficient risk management practices:** The report found that risk management practices, particularly concerning fire safety and structural integrity, were not meeting industry standards and codes.<sup>146</sup>

Overall, the report identified significant issues with the national inspection regime, noting inconsistencies and inadequacies in current practices across jurisdictions. These disparities have led to ineffective compliance

<sup>145</sup> Shergold, P. and Weir, B., Building Confidence: Improving the effectiveness of compliance and enforcement systems for the building and construction industry across Australia (February 2018)

<sup>146</sup> Shergold, P. and Weir, B., Building Confidence: Improving the effectiveness of compliance and enforcement systems for the building and construction industry across Australia (February 2018).



systems, and an increased need for reform to improve safety and adherence to building standards and codes. The report recommended enhancing regulatory powers to increase enforcement capabilities and promote greater accountability within the building and construction industry.<sup>147</sup>

## Other inquiries in the Victorian building sector

Table A. 2: Recent inquiries into the Victorian building sector and its governance

Inquiries	Purpose
Victorian Cladding Taskforce (2017)	<p>The Victorian Government established the taskforce in 2017 to tackle combustible cladding issues following incidents like the Lacrosse fire (2014) and Grenfell disaster (2017).</p> <ul style="list-style-type: none"> <li>- The taskforce identified systemic failures leading to safety risks, widespread use of combustible cladding, and regulatory shortcomings within the building industry.</li> <li>- The final report in 2019 recommended a cladding rectification program and the formation of Cladding Safety Victoria to manage it.</li> <li>- Cladding Safety Victoria was instituted under the Cladding Safety Victoria Act 2020 to oversee building rectifications.</li> <li>- Legislative changes included the Building Amendment (Cladding Rectification) Act 2019, introducing a cladding levy on building permits to fund rectification efforts.</li> </ul>
Victorian Auditor-General's Office Domestic Building Oversight Part 1: Regulation (2023)	<p>VAGO conducted a review in 2023 to investigate VBA's progress on implementing the recommendations made by three inquiries between September 2022 and May 2023, along with VBA progress on 14 performance targets from the Minister for Planning's Statement of Expectations (SOE) for Victorian Building Authority 2021-23. These inquiries were the:</p> <ul style="list-style-type: none"> <li>- Stage One Expert Panel Report</li> <li>- Better Regulation Victoria's VBA Health Check</li> <li>- An independent inquiry into VBA's workplace culture.</li> </ul> <p>Together, the three reviews made 48 recommendations to the VBA.</p> <p>The review found that while the VBA had made some progress in addressing the recommendation, it still had a long way to go in fully implementing the remaining changes, largely due to the major changes required. VAGO also found that the VBA had fully or partly met 9 of the 15 Ministerial SOE targets.</p> <p>VAGO further noted that VBA had made progress by introducing an evaluation framework for its 2022–27 strategic plan to enhance performance tracking. However, VAGO noted that VBA had not consistently tracked its progress against all targets and recommendations, and it was uncertain whether the framework would be fully applied for this purpose. VAGO concluded that a more consistent approach would improve oversight, risk management, and transparency.</p>

<sup>147</sup> Ibid.



Source: The Department of Transport and Planning

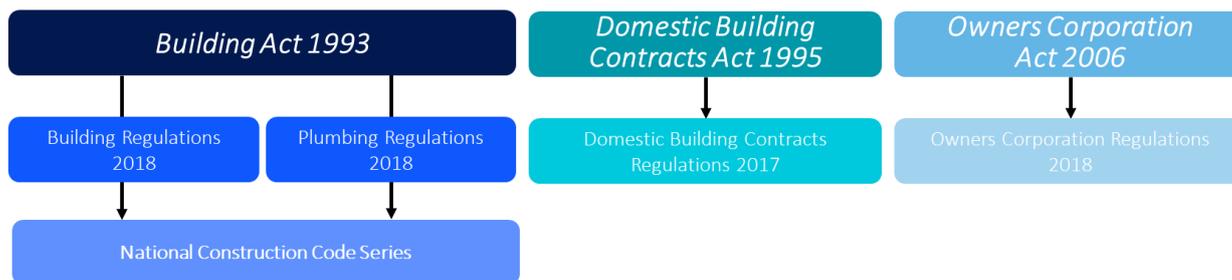


## Appendix B: Legislative and regulatory framework

### Relevant legislative framework

The legislative framework for the building industry and management of defects is underpinned by a combination of legislation, regulation and the National Construction Code. The framework is explored in sections below.

Figure B. 1 Governance of the Victorian building sector under the Building Act 1993, Domestic Building Contracts Act 1995, and Owners Corporation Act 2006



Source: The Department of Transport and Planning

### **Building Act 1993**

The *Building Act 1993* (Building Act) is the primary legislation governing building and plumbing work, and the conduct of building and plumbing practitioners in Victoria. It establishes the legislative structure and ability to prescribe regulations for the planning, approval, and supervision of building work in Victoria. The Building Act defines the roles and responsibilities of key entities, including the regulator, Building Monitor, building surveyors and local councils. Additionally, it prescribes the licensing and registration requirements for building and plumbing practitioners, along with the rights and obligations of property owners, and builders. It also provides mechanisms for dispute resolution and enforcement of building regulations. A Ministerial Order made under Building Act specifies the circumstances under which DBI is required.

A significant aspect of the Building Act is its enforcement provisions, which empower regulatory authorities to investigate non-compliance and impose penalties where necessary. The Building Act grants the regulator and other enforcement bodies the authority to issue building notices, orders, and infringement penalties to address breaches of building codes and standards. Additionally, it provides for disciplinary actions against registered practitioners who fail to meet statutory obligations.

The National Construction Code (NCC) combines both building and plumbing construction requirements into a single code for Australia. It consists of the Building Code of Australia (Volumes One and Two), and the Plumbing Code of Australia (PCA) (Volume Three). The NCC is maintained by the Australian Building Codes Board which is a joint initiative of federal, state and local governments.

### **Domestic Building Contracts Act 1995**

The *Domestic Building Contracts Act 1995* (the Domestic Building Contracts Act) is a key consumer protection law relating to domestic building work in Victoria. The Domestic Building Contracts Act regulates contracts for carrying out domestic building work in Victoria and establishes the Domestic Building Dispute Resolution Victoria (DBDRV) to provide dispute resolution for domestic building disputes.

A key feature of the Domestic Building Contracts Act is the inclusion of implied warranties on domestic building works. It requires that all domestic building work carried out meets essential quality and safety standards. These statutory warranties, which automatically apply to all domestic building contracts, require



that the work be carried “out in a proper and workmanlike manner... using suitable materials... and in compliance with all applicable legal standards”.<sup>148</sup> Builders must also ensure that the work is fit for its intended purpose and completed within a reasonable timeframe.

### ***Owners Corporations Act 2006***

The *Owners Corporations Act 2006* (Owners Corporation Act) sets out the duties and powers of OCs in reference to apartment buildings and provides appropriate mechanisms for the resolution of disputes relating to OCs. Under the Owners Corporations Act, OC’s have a duty to repair and maintain common property. This includes the responsibility for addressing defects in shared areas such as building exteriors, roof, lift, and stairwells.

## **Regulatory framework**

The Building Act is supported by regulations which provide specific requirements for the various types of works conducted in the Victorian building industry. There are two sets of Regulations made under the authority of the Building Act: The Building Regulations 2018 and Plumbing Regulations 2018. The Domestic Building Contracts Regulations 2017 are made under the Domestic Building Contracts Act and the Owners Corporations Regulations 2018 under the Owners Corporations Act. These regulations are outlined below:

- **Building Regulations 2018:** prescribe the standards for design, construction and the use of buildings and places of public entertainment as well as practitioner registration matters.
- **Plumbing Regulations 2018:** prescribe the standards for design, installation and maintenance practices across plumbing categories, as well as plumber licensing and registration matters.
- **Domestic Buildings Contract Regulations 2017:** support the implementation of the Domestic Building Contracts Act by prescribing specific requirements for domestic building contracts in Victoria.
- **Owners Corporations Regulations 2018:** support the implementation of the Owners Corporations Act by prescribing specific requirements for OCs in Victoria, including prescribed definitions, information management and procedures.

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<sup>148</sup> *Domestic Building Contracts Act* (1995).



## Appendix C: Other regulatory reforms in the building sector

Following the investigations discussed in Appendix A Appendix A: Recent inquiries and other reforms in the Victorian building sector, a series of reforms have been introduced in Victoria to support the building industry. These include amendments to the operation of the BPC and the establishment of the Building Reform Program.

After failing to meet government targets for 2021-23, the then VBA was the subject of three separate reviews and an internally commissioned report:

- The Stage One Final Report to Government: Expert Panel on Building Reform.
- Better Regulation Victoria's (BRV) VBA health check.
- The Weir and Hall 2024 The Case for Transformation report.<sup>149</sup>

As a result of these reviews, significant reform was announced by the Victorian Government to the structure and operation of the VBA.<sup>150</sup>

The announced reform established a unified, integrated regulator - the Building & Plumbing Commission (BPC). The regulator brings together the aspects of licensing, compliance and enforcement, dispute resolution and insurance functions into one agency. Additionally, Victoria is currently undergoing a comprehensive initiative called the Building Reform Program. This program aims to overhaul the building industry to ensure safer, more compliant and durable buildings.<sup>151</sup> The program includes reforms for the following:

**Building Statement: Strengthening Victoria's Building System:** Detailing the Government's commitment to the reform and improvement of the building sector.<sup>152</sup>

**Building and Plumbing Commission:** The BPC provides a streamlined regulator for consumers that oversees all aspects of building quality control - including regulation, insurance, and dispute resolution.

**Building Legislation Amendment (Fairer Payments on Jobsites and Other Matters) Bill 2025:** The Bill makes changes to Victoria's Building and Construction Industry Security of Payment Act 2002 and delivers on Government's commitment to implement 16 recommendations from a Parliamentary inquiry into employers and contractors who refuse to pay their subcontractors for completed works.

**Building Legislation Amendment (Buyer Protections) Act 2025:** The Act established the BPC as a new integrated regulator for the building system on 1 July 2025, bringing together the functions of the VBA, DBDRV and the domestic building insurance arm of the VMIA.

The BPC will soon have new powers to protect consumers, including new rectification orders, a new statutory warranty scheme for buildings up to three storeys, and a bond for developers of apartments above three storeys.

### Reforms to Victoria's building system:

Building manuals

Modern Methods of Construction

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<sup>149</sup> Bronwyn Weir and Frances Hall (2024), Victorian Building Authority – the case for transformation.  
<[https://www.vba.vic.gov.au/\\_\\_data/assets/pdf\\_file/0003/185745/VBA-The-Case-for-Transformation.pdf](https://www.vba.vic.gov.au/__data/assets/pdf_file/0003/185745/VBA-The-Case-for-Transformation.pdf)>

<sup>150</sup> VMIA, Government announcement: Building & Plumbing Commission < <https://www.dbi.vmia.vic.gov.au/announcement>>

<sup>151</sup> Department of Transport and Planning, Building Reform < <https://www.planning.vic.gov.au/guides-and-resources/building-policy/building-reform>>

<sup>152</sup> Department of Transport and Planning (2025), Building Statement: Strengthening Victoria's Building System.  
<[https://www.planning.vic.gov.au/\\_\\_data/assets/pdf\\_file/0036/739917/Building-Statement-Strengthening-Victorias-Building-System.pdf](https://www.planning.vic.gov.au/__data/assets/pdf_file/0036/739917/Building-Statement-Strengthening-Victorias-Building-System.pdf)>



## Expanded building industry registration Information statements

**Building Monitor:** The Building Monitor is a dedicated advocate for Victorian domestic building consumers and ensure their voices are heard when decisions are made about the building industry.

The Building Monitor can access and analyse data held by government agencies to identify areas where consumers need better protection.

**State Building Surveyor:** The State Building Surveyor is the main source of technical expertise for industry and practitioners. The State Building Surveyor as a statutory appointment provides strong leadership, specialist expertise and stakeholder engagement capabilities to manage a team of senior technical professionals.

The State Building Surveyor gives authoritative technical advice and has the authority to make binding determinations on the technical interpretation of building and plumbing regulations, codes and standards.

**Review of Victoria's building system:** An expert panel is undertaking a comprehensive review of Victoria's building system.

For Stage Three of its review, the Expert Panel has been asked to advise the Government on a framework for a new Building Act for Victoria.



## Appendix D: Building classes

The National Construction Code classifies buildings into ten classes. These classes are presented in table below.

Table D.1: Building classes

Building class	Description
Class 1	Domestic or residential buildings that are either single standalone houses or horizontally attached houses such as terrace houses, row houses or townhouses. Class 1 has two sub-classes: <ul style="list-style-type: none"> <li>– Class 1a: Single residential properties such as a detached house, or a part of attached dwellings such as rowhouses or townhouses.</li> <li>– Class 1b: boarding house, guest house or hostel with a floor area of less than 300 m<sup>2</sup>.</li> </ul>
Class 2	Domestic apartment buildings where people live above, below or beside each other.
Class 3	Residential buildings other than Class 1 and Class 2 buildings that provide long-term or transient accommodation for a number of unrelated people such as hotels and student accommodation.
Class 4	Sole properties or premises within a non-residential property such as a caretaker's residence in a storage facility.
Class 5	Office buildings for professional and/or commercial purposes.
Class 6	Buildings where retail goods and services are provided to the public such as a shopping centre, hairdressing salon.
Class 7	<ul style="list-style-type: none"> <li>– Class 7a: Carparks</li> <li>– Class 7b: Warehouses, storage buildings or displaying wholesale goods.</li> </ul>
Class 8	Buildings used for production, assembling, altering, packing, etc of goods or produce such as mechanic workshops, laboratories.
Class 9	Public buildings. Class 9 has the following sub-classifications: <ul style="list-style-type: none"> <li>– Class 9a: healthcare buildings (such as hospitals, day surgery clinics)</li> <li>– Class 9b: buildings where people assemble for social, political, theatrical, religious or civic purposes such as schools, universities, and sports facilities</li> <li>– Class 9c: aged care facilities.</li> </ul>
Class 10	Non-habitable structures. There are three sub-classifications: <ul style="list-style-type: none"> <li>– Class 10a: sheds, carports and private garages</li> <li>– Class 10b: fences, masts, antennas, retaining wall, swimming pools</li> <li>– Class 10c: private bushfire shelter.</li> </ul>

Source: National Construction Code

## Appendix E: Detailed RIS options for the FHWS

### Assistance and maximum amount of cover

Policy	Option 1 (similar to Vic DBI)	Option 2 (bespoke)	Option 3 (QHWS)
<b>Assistance if domestic building work not started<sup>153</sup></b>			
Application: <ul style="list-style-type: none"> <li>the work is to be carried out under an insurable domestic building contract; and</li> <li>an insurable domestic building contract event occurs<sup>154</sup>; and</li> <li>work under the contract has not started.</li> </ul>			
Deposit	<ul style="list-style-type: none"> <li>5% per DBCA.</li> </ul>	<ul style="list-style-type: none"> <li>5% per DBCA.</li> </ul>	<ul style="list-style-type: none"> <li>5% per DBCA</li> </ul>
Maximum liability if work not started	<ul style="list-style-type: none"> <li>Aggregate limit of \$300,000</li> <li>No optional cover</li> </ul>	<ul style="list-style-type: none"> <li>This option uses an aggregate limit approach, similar to DBI.</li> <li>Total aggregate liability for the BPC is \$400,000 (for all payments).</li> <li>No optional cover.</li> </ul>	<ul style="list-style-type: none"> <li>Limited to \$200,000 for an incomplete work claim (standard cover) or \$300,000 (with optional cover)</li> </ul>
<b>Assistance if work started (incomplete work)</b>			
Application: <ul style="list-style-type: none"> <li>the domestic building work has started; and</li> <li>insurable domestic building contract event occurs; and</li> <li>the work is carried out under an insurable domestic building contract; and</li> <li>the work is incomplete; and</li> <li>for work for the common property that is—at least half of the lots that are homes in the plan of subdivision are occupied when the insurable domestic building contract was entered into and when an insurable domestic building contract event occurs.</li> </ul>			

<sup>153</sup> The proposed definition for when domestic building work is taken to have started is as follows: For the purposes of the statutory insurance scheme, domestic building work (other than the removal of vegetation) is taken to have started on the day on which tools or building materials are first used to carry out the work.

<sup>154</sup> Insurable domestic building contract event is defined in the regulations setting out when a domestic building contract is taken to have ended.



<p>Assistance to complete domestic building work</p>	<ul style="list-style-type: none"> <li>To complete the work, difference between original contract and cost of engaging new builder limited to 20%.</li> <li>No assistance for demolition.</li> </ul>	<ul style="list-style-type: none"> <li>Difference between original contract and cost of engaging new builder capped at 30% of the contract price, <b>or</b></li> <li>At the request of the owner and with the agreement of the BPC: <ul style="list-style-type: none"> <li>Reasonable demolition costs if unable to complete the build, and</li> <li>An amount equivalent to the amount the building owner has paid under the insurable domestic building contract, when the claim is made.</li> </ul> </li> <li>Any assistance provided by the BPC for demolition and amounts paid under contract must not exceed the BPC's liability if the completion claim and defect rectification were to proceed.</li> </ul>	<ul style="list-style-type: none"> <li>Difference between original contract and cost of engaging new builder limited through a 30% under-pricing mechanism. If cost of engaging new builder exceeds original contract by 30%, assistance reduced by amount which the insurable value of the work exceeds the original contract price, <b>or</b></li> <li>At the request of the owner and with the agreement of the BPC: <ul style="list-style-type: none"> <li>Reasonable demolition costs if unable to complete the build, and</li> <li>an amount equivalent to the amount the consumer has paid under the contract, when the claim is made, for the built work that is demolished.</li> </ul> </li> <li>Any assistance provided by the BPC for demolition and amounts paid under contract must not exceed the BPC's liability if the completion claim and defect rectification were to proceed.</li> </ul>
<p>Maximum amount</p>	<ul style="list-style-type: none"> <li>Aggregate limit of \$300,000.</li> <li>No optional cover</li> </ul>	<ul style="list-style-type: none"> <li>\$400,000 aggregate limit – total liability to BPC.</li> <li>No optional cover.</li> </ul>	<ul style="list-style-type: none"> <li>Sub-limit of \$200,000 (standard cover)</li> <li>Sub limit of \$300,000 (optional cover)</li> <li>Sub-limit of \$300,000 (optional cover)</li> </ul>
<p>No entitlement to assistance</p>	<ul style="list-style-type: none"> <li>Work prohibited by relevant law or approval is not obtained under relevant law<sup>155</sup></li> </ul>	<ul style="list-style-type: none"> <li>Domestic building work not approved under relevant law.</li> <li>The building owner may be entitled to demolition assistance, unless the owner</li> </ul>	<ul style="list-style-type: none"> <li>Work prohibited by relevant law or approval is not obtained under relevant law, and for demolition assistance, the consumer assisted, authorised or encouraged the contravention of the</li> </ul>

<sup>155</sup> Relevant law includes *Building Act 1993, Heritage Act 2017, Planning and Environment Act 1987*.



		assisted, authorised or encouraged the contravention of the relevant law.	relevant law.
<b>Accommodation, removal and storage costs (incomplete and defective work)</b>			
<p>Application:</p> <ul style="list-style-type: none"> <li>• an approved completion claim or a defective and non-compliant work claim; and</li> <li>• the domestic building work the subject of the approved claim is for a home that is— <ul style="list-style-type: none"> <li>○ occupied by the consumer or, if the home is unoccupied, intended to be occupied by the consumer; and</li> <li>○ not suitable for occupation because the work is incomplete; or</li> <li>○ not suitable for occupation due to the defective work or while the defective work is being rectified</li> </ul> </li> </ul>			
Accommodation, storage, removal costs	<ul style="list-style-type: none"> <li>• Accommodation, removal and storage costs</li> </ul>	<ul style="list-style-type: none"> <li>• Accommodation, removal and storage costs reasonably incurred by the building owner</li> </ul>	<ul style="list-style-type: none"> <li>• Accommodation, removal and storage costs.</li> </ul>
Maximum amount	<ul style="list-style-type: none"> <li>• Capped at 60 days.</li> </ul>	<ul style="list-style-type: none"> <li>• \$10,000 within the \$400,000 aggregate limit.</li> </ul>	<ul style="list-style-type: none"> <li>• \$5,000 (standard cover) or \$10,000 optional cover. Amount included in max amount for incomplete and defective work.</li> </ul>
<b>Protection of incomplete domestic building work before new builder is appointed</b>			
<p>Application:</p> <ul style="list-style-type: none"> <li>○ the domestic building work the subject of an approved completion or demolition claim.</li> </ul>			
Assistance provided	<ul style="list-style-type: none"> <li>• No required cover.</li> </ul>	<ul style="list-style-type: none"> <li>• Assistance to secure the building site through measures that may reasonably reduce the incidence of theft, vandalism or unauthorised access to the building site or damage to the domestic building work, including: <ul style="list-style-type: none"> <li>○ The erection of fencing to restrict access to the building site;</li> <li>○ The installation of security cameras;</li> <li>○ changing locks to access points to the building site;</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• The domestic building work is damaged or destroyed as a result of a defined event (vandalism or forcible removal of built work, or fire, storm or tempest).</li> <li>• Assistance for reinstatement work necessary to reinstate the built work to the same state it was in immediately before the defined event.</li> <li>• Assistance reduced by the amount, if any, by which the consumer’s liability for the residential construction work the subject of the allowed completion claim exceeds</li> </ul>



		<ul style="list-style-type: none"> <li>the installation of coverings intended to protect the building or building materials from damage caused by weather.</li> </ul>	the reasonable cost of completing the work.
Maximum amount	<ul style="list-style-type: none"> <li>No cover.</li> </ul>	<ul style="list-style-type: none"> <li>Limited to \$5,000 within the aggregate limit of \$400,000.</li> </ul>	<ul style="list-style-type: none"> <li>Sub-limit of \$200,000 (standard cover)</li> <li>Sub-limit of \$300,000 (optional cover)</li> </ul>
<b>Defective work</b>			
Application:			
<ul style="list-style-type: none"> <li>Domestic building work that is defective or non-compliant (including common property)</li> </ul>			
Entitlement to rectification work	<ul style="list-style-type: none"> <li>Rectifying the defective work (including common property);</li> <li>any other building work reasonably required to be carried out to a relevant building as a consequence of the defective work.</li> <li>assistance the consumer is entitled to claim for defective work must be reduced by the consumer's liability for the work.</li> </ul>	<ul style="list-style-type: none"> <li>Rectifying the defective or non-compliant domestic building work (including common property);</li> <li>any work reasonably required to rectify damage to a relevant building caused in the carrying out of, or as a result of, defective or non-compliant domestic building work.</li> <li>assistance the consumer is entitled to claim for defective work must be reduced by the consumer's liability for the work.</li> </ul>	<ul style="list-style-type: none"> <li>Rectifying the defective work (including common property);</li> <li>any other building work reasonably required to be carried out to a relevant building as a consequence of the defective work.</li> <li>assistance the consumer is entitled to claim for defective work must be reduced by the consumer's liability for the work.</li> </ul>
No entitlement to assistance but may be entitled to claim loss in	<ul style="list-style-type: none"> <li>No entitlement to claim diminution in value.</li> </ul>	<ul style="list-style-type: none"> <li>No entitlement to claim diminution in value.</li> </ul>	<ul style="list-style-type: none"> <li>The building owner is not entitled to claim assistance for defective domestic building work if all of the below points apply to the defect:</li> </ul>



<p>value (diminution in value claim)</p>			<ul style="list-style-type: none"> <li>○ the domestic building work is defective because the work does not comply with the plans or specifications for the work, and</li> <li>○ If a performance requirement under the BCA applies to the domestic building work, and the domestic building work complies with the performance requirement, and</li> <li>○ The domestic building work complies with the <i>Building Act 1993</i> and regulations made under that Act, the <i>Electricity Safety Act 1998</i>, <i>Gas Safety Act 1998</i>, and</li> <li>○ The built work is not significantly affected as a result of the defective work.</li> </ul>
<p>Period of cover</p>	<ul style="list-style-type: none"> <li>• Structural defects- Covered for 6 years after the work is complete.</li> <li>• Non-structural defect – 2 years after the work is substantially complete.</li> </ul>	<ul style="list-style-type: none"> <li>• Major defects including structural defects and weatherproofing and waterproofing defects ending 6 years after the completion of the domestic building work.</li> <li>• Non-structural defects               <ul style="list-style-type: none"> <li>○ 2 years after the completion of the domestic building work.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Structural defects               <ul style="list-style-type: none"> <li>○ Work that is not substantially complete within 6 months after the cover commencement day – structural defect cover starts 6 months after the cover commencement day and ends 6 years and 6 months after the cover commencement day.</li> <li>○ Otherwise, 6 years and 6 months after the cover commencement day for the work.</li> </ul> </li> </ul>



			<ul style="list-style-type: none"> <li>Non-structural defect – 6 months after the work is substantially complete.</li> </ul>
Maximum amount	<ul style="list-style-type: none"> <li>\$300,000 (aggregate limit)</li> <li>No optional cover</li> </ul>	<ul style="list-style-type: none"> <li>\$400,000 (aggregate limit)</li> <li>No optional cover.</li> </ul>	<ul style="list-style-type: none"> <li>Sub-limit of \$200,000 (standard cover)</li> <li>Sub-limit of \$300,000 (optional cover)</li> </ul>
Apportionment of assistance between owners in common property	$C \times \frac{R}{A}$ <p>where—  <b>C</b> is the total cost of the rectification work required for the common property.  <b>R</b> is the sum of the lot entitlements of the lots in the building that are used for homes or lots appurtenant to homes.  <b>A</b> is the sum of the lot entitlements for all lots in the building.</p>	$C \times \frac{R}{A}$ <p>where—  <b>C</b> is the total cost of the rectification work required for the common property.  <b>R</b> is the sum of the lot entitlements of the lots in the building that are used for homes or lots appurtenant to homes.  <b>A</b> is the sum of the lot entitlements for all lots in the building.</p>	$C \times \frac{R}{A}$ <p>where—  <b>C</b> is the total cost of the rectification work required for the common property.  <b>R</b> is the sum of the lot entitlements of the lots in the building that are used for homes or lots appurtenant to homes.  <b>A</b> is the sum of the lot entitlements for all lots in the building.</p>
<b>Maximum amounts for other types of buildings</b>			
Maximum amount for multiple dwellings	<ul style="list-style-type: none"> <li>\$300,000 limit per home – not distinguished by</li> </ul>	<ul style="list-style-type: none"> <li>\$400,000 limit per home – not distinguished by different building types.</li> </ul>	<ul style="list-style-type: none"> <li>Incomplete work per home - \$200,000                             <ul style="list-style-type: none"> <li>If optional cover applies, \$300,000</li> </ul> </li> <li>Fire, storm, tempest per home - \$200,000</li> </ul>



	different building types.		<ul style="list-style-type: none"> <li>○ If optional cover applies, \$300,000</li> <li>• Defective work per home - \$200,000               <ul style="list-style-type: none"> <li>○ If optional cover applies, \$300,000</li> </ul> </li> <li>• Common property - \$200,000               <ul style="list-style-type: none"> <li>○ If optional cover applies, \$300,000.</li> </ul> </li> </ul>
Single home and/or related class 10 building and/or a swimming pool	<ul style="list-style-type: none"> <li>• \$300,000 limit per home – not distinguished by different building types.</li> </ul>	<ul style="list-style-type: none"> <li>• \$400,000 limit per home – not distinguished by different building types.</li> <li>• Swimming pool limited to \$100,000.</li> </ul>	<ul style="list-style-type: none"> <li>• Incomplete work - \$200,000               <ul style="list-style-type: none"> <li>○ If optional cover applies, \$300,000</li> </ul> </li> <li>• Fire, storm, tempest per home - \$200,000               <ul style="list-style-type: none"> <li>○ If optional cover applies, \$300,000</li> </ul> </li> <li>• Defective work - \$200,000               <ul style="list-style-type: none"> <li>○ If optional cover applies, \$300,000</li> </ul> </li> </ul>
Other buildings	<ul style="list-style-type: none"> <li>• \$300,000 limit per home – not distinguished by different building types.</li> </ul>	<ul style="list-style-type: none"> <li>• 400,000 limit per home – not distinguished by different building types.</li> <li>• Swimming pool limited to \$100,000.</li> </ul>	<ul style="list-style-type: none"> <li>• Incomplete work per home - \$200,000               <ul style="list-style-type: none"> <li>○ If optional cover applies, \$300,000</li> </ul> </li> <li>• Fire, storm, tempest per home - \$200,000               <ul style="list-style-type: none"> <li>○ If optional cover applies, \$300,000</li> </ul> </li> <li>• Defective work per home - \$200,000               <ul style="list-style-type: none"> <li>○ If optional cover applies, \$300,000</li> </ul> </li> <li>• Common property - \$200,000               <ul style="list-style-type: none"> <li>○ If optional cover applies, \$300,000.</li> </ul> </li> </ul>



## Exclusions

Policy	Option 1 (Vic DBI)	Option 2 (bespoke)	Option 3 (QHWS)
<p>Exclusions related to refusal of entry, or request for information from the BPC</p>	<ul style="list-style-type: none"> <li>• Insured must comply with any reasonable directions of the insurer, and must provide reasonable access to the insurer or any builder in relation to the inspection, completion or rectification of the domestic building work.</li> <li>• Insurer cannot reduce its liability unless it can provide that a failure to comply with a requirement increased its liability.</li> <li>• Insured has the right on reasonable grounds (including loss of confidence in the builder) to refuse to provide the access to a builder nominated or approved by the insurer.</li> </ul>	<ul style="list-style-type: none"> <li>• Assistance may be refused if building owner has refused to comply with a written requests from the BPC, or persons acting on behalf of the BPC, to:               <ul style="list-style-type: none"> <li>○ provide information to assist the BPC assess the claim, within a reasonable time of being requested; or</li> <li>○ give the BPC or persons acting on behalf of the BPC reasonable access to the building site for the purpose of assessing the claim or providing assistance.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• A consumer for residential construction work is not entitled to claim assistance if the consumer unreasonably refuses the commission access to the built work for the purposes of assessing a claim for the work.</li> </ul>



<p>Exclusion related to refusal of entry to other persons</p>	<ul style="list-style-type: none"> <li>• Insured must provide reasonable access to the insurer or any builder in relation to the inspection, completion or rectification of the domestic building work.</li> <li>• Insurer cannot reduce its liability unless it can provide that a failure to comply with a requirement increased its liability.</li> <li>• Insured has the right on reasonable grounds (including loss of confidence in the builder) to refuse to provide the access to a builder nominated or approved by the insurer.</li> </ul>	<ul style="list-style-type: none"> <li>• Assistance may be refused if the building owner refuses to allow another person reasonable access to the building site.</li> </ul>	<ul style="list-style-type: none"> <li>• The consumer is not entitled to claim assistance if the consumer has unreasonably refused the licensed contractor who carried out the defective work access to the site to carry out rectification work.</li> </ul>
<p>Exclusion of assistance if obligation to complete continues</p>	<ul style="list-style-type: none"> <li>• Able to refuse access to the builder if homeowner lost confidence</li> </ul>	<ul style="list-style-type: none"> <li>• A building owner is not entitled to assistance under the FHWS for loss arising from or in connection with defective or non-compliant domestic building work if the builder who carried out the domestic building work has a continuing obligation under an insurable domestic building contract to complete incomplete domestic building work.</li> </ul>	<ul style="list-style-type: none"> <li>• Same as Option 2.</li> </ul>



<p>Exclusion if the building owner attempts to rectify the defects themselves</p>	<ul style="list-style-type: none"> <li>• Same as Option 2.</li> </ul>	<ul style="list-style-type: none"> <li>• Assistance may be refused if the building owner does, attempts, or causes to be done, any of the following without the prior written approval of the BPC if doing so is not reasonably necessary to mitigate the building owner’s loss:             <ul style="list-style-type: none"> <li>○ Completion of the domestic building work;</li> <li>○ Demolition of the domestic building work;</li> <li>○ Rectification of the domestic building work.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• A consumer for residential construction work is not entitled to claim assistance in relation to the work if the consumer does any of the following without the prior written approval of the commission—             <ul style="list-style-type: none"> <li>○ demolishes the built work;</li> <li>○ rectifies the work;</li> <li>○ reinstates the built work.</li> </ul> </li> </ul>
<p>Exclusion for defects arising from claimant's own actions or non-compliance.</p>	<ul style="list-style-type: none"> <li>• Assistance may be refused for loss or damage caused or contributed to by the failure of any person (including the building owner), other than the following, to undertake reasonable maintenance, inspection and treatment or to carry out the reasonable written recommendations given to the person by the BPC—             <ul style="list-style-type: none"> <li>○ The builder who carried out the domestic building work;</li> <li>○ an employee, subcontractor,</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Assistance may be refused for loss caused in whole or in part by the failure of any person to undertake reasonable maintenance, inspection and treatment of the domestic building work or to carry out the reasonable written recommendations given to the person by the BPC, except for the failure of—             <ul style="list-style-type: none"> <li>○ The builder who carried out the domestic building work;</li> <li>○ an employee, subcontractor, supplier or invitee of the builder.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Same as Option 2.</li> </ul>



	supplier or invitee of the builder.		
Loss caused by delay to enter into contract to complete or rectify work	<ul style="list-style-type: none"> <li>• Same as Option 2.</li> </ul>	<ul style="list-style-type: none"> <li>• Assistance is not available for loss arising from a failure to, within 28 days after receiving a notice from the BPC approving a claim, enter into a domestic building contract to complete or rectify the domestic building work that is the subject of the notice.</li> </ul>	<ul style="list-style-type: none"> <li>• The building owner is not entitled to claim assistance for loss that would not have been suffered if the consumer had entered into the contract with the licensed contractor within 28 days after receiving the notice.</li> </ul>
Work damaged, defective before purchase.	<ul style="list-style-type: none"> <li>• The policy must indemnify the purchaser under a contract of sale in respect of loss or damage arising from a breach of any warranty implied into the contract by section 137C of the <i>Building Act 1993</i>, unless— <ul style="list-style-type: none"> <li>○ the condition report required by section 137B(2)(a) of the <i>Building Act 1993</i> states that the materials were not new; or</li> <li>○ it was apparent from the nature of the relevant building work that the materials were not new.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Assistance may be refused for loss: <ul style="list-style-type: none"> <li>○ If a person purchases land (including a lot) on or for which the domestic building work has been carried out, and</li> <li>○ if the domestic building work is covered by the FHWS; and</li> <li>○ before entering into a contract of sale for the purchase of the land the person knew or ought reasonably to have known the domestic building work was damaged, defective or destroyed.</li> </ul> </li> <li>• The person is not entitled to assistance for incomplete, defective or non-compliant domestic building work that is the subject of a report of a kind referred to in section 137B(2)(a) of the Act.</li> <li>• The person is not entitled to claim assistance for the following:</li> </ul>	<ul style="list-style-type: none"> <li>• Any damaged, defective or destroyed built work that a person knew or ought to have reasonably known before the purchase of land, or a manufactured home, on or for which residential construction work has been carried out.</li> <li>• If the BPC gives a building owner for domestic build work written notice about the approval for a builder to— <ul style="list-style-type: none"> <li>○ complete domestic building work; or</li> <li>○ carry out reinstatement work; or</li> <li>○ carry out rectification work.</li> </ul> </li> </ul>



		<ul style="list-style-type: none"> <li>○ the defective or non-compliant or destroyed domestic building work;</li> <li>○ any damage resulting from the defective or non-compliant work or the destruction.</li> </ul>	
Exclusion relating to malfunction of equipment or appliances not attributed to the builder	<ul style="list-style-type: none"> <li>• A building owner is not entitled to assistance for loss or damage incurred as a result of malfunction in any mechanical or electrical equipment or appliance if the BPC is satisfied the malfunction is not caused in whole or part by the workmanship of or installation by the relevant person.</li> </ul>	<ul style="list-style-type: none"> <li>• Same as Option 1.</li> </ul>	<ul style="list-style-type: none"> <li>• A building owner is not entitled to claim assistance for any loss or damage incurred from the installation of electrical appliances intended to be permanently fixed to a residence or related roofed building.</li> </ul>
<b>Exclusions not related to a person</b>			
Acts of God and nature	<ul style="list-style-type: none"> <li>• Assistance not available for loss caused by loss or damage incurred as a result of acts of God or nature.</li> </ul>	<ul style="list-style-type: none"> <li>• Assistance is not available for loss caused by acts of God or nature, including: <ul style="list-style-type: none"> <li>○ Earthquake;</li> <li>○ Flood;</li> <li>○ Erosion;</li> <li>○ Landslides or landslips.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Assistance not available for loss caused by loss caused or contributed to by earthquake, erosion, flood, landslip, tidal wave or change of watercourse.</li> </ul>
Warlike acts and terrorism	<ul style="list-style-type: none"> <li>• Assistance not available for loss or damage incurred as a result of war (whether declared or not); or civil unrest.</li> </ul>	<ul style="list-style-type: none"> <li>• Assistance not available for loss or damage incurred in circumstances affected by the following: <ul style="list-style-type: none"> <li>○ War (whether declared or not);</li> <li>○ A nuclear event;</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Assistance not available for loss or damage incurred as a result of the following: <ul style="list-style-type: none"> <li>○ a terrorist act</li> </ul> </li> </ul>



		<ul style="list-style-type: none"> <li>○ Civil unrest;</li> <li>○ Terrorism.</li> </ul>	<ul style="list-style-type: none"> <li>○ any action in controlling, preventing, suppressing, retaliating against or responding to a terrorist act.</li> </ul>
Environmental and external hazards	<ul style="list-style-type: none"> <li>• Assistance not available for loss or damage incurred as a result of:               <ul style="list-style-type: none"> <li>○ Asbestos contamination or removal; or</li> <li>○ failure by the building owner to maintain appropriate protection against pest infestation or exposure to natural timbers.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Assistance no available for loss or damage incurred as a result of:               <ul style="list-style-type: none"> <li>○ Asbestos contamination or removal; or</li> <li>○ failure by the building owner to maintain appropriate protection against pest infestation or exposure to natural timbers;</li> <li>○ the action of vermin, termites or moths or other insects.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• No exclusion for environmental and external hazards (i.e., nuclear events, asbestos contamination and removal, or building owner’s failure to maintain appropriate protection against pest infestation or exposure to natural timbers).</li> </ul>
Loss arising from landscaping, paving, driveways or fencing	<ul style="list-style-type: none"> <li>• No cover for domestic building work that is landscaping, paving, retaining structures, driveways or fencing, except if any of the domestic building work:               <ul style="list-style-type: none"> <li>○ are integral to the construction of a building; or</li> <li>○ require the issue of a building permit under the <i>Building Act 1993</i>; or</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Same as Option 1.</li> </ul>	<ul style="list-style-type: none"> <li>• Same as Option 1.</li> </ul>



	<ul style="list-style-type: none"> <li>○ could result in water penetration of or within a building; or</li> <li>○ could adversely affect health or safety of the building occupants or members of the public; or</li> <li>○ adversely affect the structural adequacy of a building; or</li> <li>○ if carried out under or intended to be carried out under an insurable domestic building contract, is not completed at the time of an insurable domestic building contract event.</li> </ul>		
<p>Slab of related roofed-building</p>	<ul style="list-style-type: none"> <li>• Same as Option 2.</li> </ul>	<ul style="list-style-type: none"> <li>• A building owner is not entitled to claim assistance for loss arising from, in the case of domestic building work in relation to a related roofed-building — defective or non-compliant domestic building work that relates to the slab of that related roofed-building, if the work in relation to the slab was carried out before the domestic building work that is the subject of a claim was carried out.</li> </ul>	<ul style="list-style-type: none"> <li>• Same as option 2.</li> </ul>



Swimming pool	<ul style="list-style-type: none"> <li>Swimming pools are covered to the extent they are 'domestic building work'.</li> </ul>	<ul style="list-style-type: none"> <li>A building owner is not entitled to assistance for loss arising from or in connection with domestic building work carried out in relation to— <ul style="list-style-type: none"> <li>features or accessories associated with, but not essential to, the functioning of a swimming pool; or</li> <li>the surfacing of an area outside of a swimming pool; or</li> <li>steps for a swimming pool that are not fixtures.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>The consumer is not entitled to claim assistance if the primary insurable work is for the erection, construction or installation of a swimming pool— <ul style="list-style-type: none"> <li>defect in the work for the swimming pool that is not a structural defect; or</li> <li>surfacing of an area outside the coping for the swimming pool; or</li> <li>work associated with the erection, construction or installation of the swimming pool, including, for example, paving, supplying or installing water features, swimming pool slides, diving boards and swimming pool equipment and housings; or</li> <li>steps for the swimming pool that are not fixed structures;</li> </ul> </li> </ul>
Loss arising due to fair wear and tear	<ul style="list-style-type: none"> <li>Loss or damage that could reasonably be expected to result from fair wear and tear.</li> </ul>	<ul style="list-style-type: none"> <li>Same as Option 1.</li> </ul>	<ul style="list-style-type: none"> <li>Same as Option 1.</li> </ul>
Loss related to a defective design	<ul style="list-style-type: none"> <li>No exclusion provided under Option 1.</li> </ul>	<ul style="list-style-type: none"> <li>A building owner is not entitled to assistance if— <ul style="list-style-type: none"> <li>the domestic building work is defective or non-compliant as a result of designs, plans and specifications that do not comply with the Act and regulations made under the Act or the Building Code of Australia; and.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>A building owner is not entitled to claim assistance if loss caused or contributed to by— <ul style="list-style-type: none"> <li>For domestic building work for a multiple dwelling – the owner has contracted with someone, other than the head contractor who carried out the work, for the design; or</li> </ul> </li> </ul>



		<ul style="list-style-type: none"> <li>○ were not prepared by an architect (within the meaning of section 3(1) of the <i>Architects Act 1991</i>), an endorsed building engineer, a building practitioner registered in a class within the category of building designer or the builder who carried out the domestic building work.</li> </ul>	<ul style="list-style-type: none"> <li>○ Otherwise – the design was prepared by someone other than an engineer, an architect, a building designer or the head contractor who carried out the work.</li> </ul>
Exclusion relating to accidental damage by third parties	<ul style="list-style-type: none"> <li>• No exclusion.</li> </ul>	<ul style="list-style-type: none"> <li>• A building owner is not entitled to assistance for accidental damage that is not caused by—                             <ul style="list-style-type: none"> <li>○ the relevant person; or</li> <li>○ in the case of a relevant person who is a builder— any person engaged by the builder carrying out the domestic building work in connection with carrying out the work.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• A building owner is not entitled to assistance for accidental damage, other than as a result of a failure by the licensed contractor who carried out the work, or an employee or subcontractor of the licensed contractor, to take proper care and skill in carrying out the residential construction work.</li> </ul>
Consequential loss	<ul style="list-style-type: none"> <li>• Assistance may be refused for loss or damage incurred as a result of consequential loss.</li> </ul>	<ul style="list-style-type: none"> <li>• Assistance is not available for loss or damage incurred as a result of                             <ul style="list-style-type: none"> <li>○ Loss of rent or other income;</li> <li>○ Loss of value;</li> <li>○ Loss of opportunity;</li> <li>○ Inconvenience or distress.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• No exclusion for consequential loss.</li> </ul>
<b>Other exclusions – nature of the domestic building work and other considerations</b>			
Claims subject to multiple insurance products	<ul style="list-style-type: none"> <li>• Assistance is not available for loss or damage from risks normally insured under a policy for public</li> </ul>	<ul style="list-style-type: none"> <li>• Assistance is not available if a policy for contract works insurance or public liability insurance applies to the domestic building work, and that policy</li> </ul>	<ul style="list-style-type: none"> <li>• Loss or damage that is covered by another insurance policy.</li> </ul>



	liability or contract works.	covers the same loss that is covered under the statutory insurance scheme.	
Claims for previously settled matters	<ul style="list-style-type: none"> <li>No exclusion.</li> </ul>	<ul style="list-style-type: none"> <li>Assistance is not available if assistance to rectify defective or non-compliant domestic building work has been provided previously by the BPC, and the BPC is satisfied that the defective or non-compliant domestic building work has been rectified;</li> </ul>	<ul style="list-style-type: none"> <li>The BPC is not liable to make a payment for a matter the subject of a claim under the scheme relating to domestic building work if the BPC has already made a payment for the same matter relating to the work in settlement of the matter. However, this exclusion does not apply if: <ul style="list-style-type: none"> <li>the payment previously made by the BPC was made to a builder to perform work to rectify the matter; and</li> <li>the work was carried out in the way approved by the BPC but did not rectify the matter.</li> </ul> </li> </ul>
Purpose of the domestic building work	<ul style="list-style-type: none"> <li>Not explicitly excluded.</li> </ul>	<ul style="list-style-type: none"> <li>Assistance is not available if the domestic building work that is the subject of the claim is not used for domestic purposes.</li> </ul>	<ul style="list-style-type: none"> <li>Not explicitly excluded.</li> </ul>
Minor cosmetic differences	<ul style="list-style-type: none"> <li>No exclusion.</li> </ul>	<ul style="list-style-type: none"> <li>Domestic building work that fails to comply with the domestic building contract due to a minor cosmetic difference is excluded from cover. The BPC may determine the circumstances in which there is a minor cosmetic difference between the defective or non-compliant domestic building work and the plans and specifications included in a domestic building contract.</li> </ul>	<ul style="list-style-type: none"> <li>No exclusion.</li> </ul>



Cost-plus contracts	<ul style="list-style-type: none"> <li>Assistance is available for domestic building work carried out under a cost-plus contract.</li> </ul>	<ul style="list-style-type: none"> <li>Assistance is not available for domestic building work carried out under a cost-plus contract.</li> </ul>	<ul style="list-style-type: none"> <li>Assistance is only available for defects, and not available for incomplete work.</li> </ul>
Unfixed structures	<ul style="list-style-type: none"> <li>No exclusion</li> </ul>	<ul style="list-style-type: none"> <li>Assistance is not available for domestic building work for a structure that is not fixed to land.</li> </ul>	<ul style="list-style-type: none"> <li>Not explicitly excluded</li> </ul>

## Claims process

Policy	Option 1 (Vic DBI)	Option 2 (bespoke)	Option 3 (QHWS)
<b>Time to raise issue with regulator</b>			
Application: <ul style="list-style-type: none"> <li>The length of time a building owner must make a claim for assistance with the BPC.</li> <li>Timeframes exist within the proposed 6-year warranty period for major defects and 2-year period for non-major defects.</li> <li>The period to lodge a claim/complaint does <b>not</b> extend past the respective overall warranty period, however the Act enables the BPC to accept claims out of time in certain circumstances.</li> </ul>			
Major defects	<ul style="list-style-type: none"> <li>Within <b>6 months</b> after the day the consumer first becomes aware, or ought reasonably to have become aware, of the defect (both structural and non-structural) in the work.</li> </ul>	<ul style="list-style-type: none"> <li>Within <b>12 months</b> after the day the consumer first becomes aware, or ought reasonably to have become aware, of the defect in the work.</li> </ul>	<ul style="list-style-type: none"> <li>Within <b>3 months</b> after the day the consumer first becomes aware, or ought reasonably to have become aware, of the defect in the work</li> </ul>
Other defects	<ul style="list-style-type: none"> <li>Within <b>6 months</b> after the day the consumer first becomes aware, or ought reasonably to have become</li> </ul>	<ul style="list-style-type: none"> <li>Within <b>12 months</b> after the day the consumer first becomes aware, or ought reasonably to have become</li> </ul>	<ul style="list-style-type: none"> <li>Within <b>7 months</b> after the day the residential construction work is substantially complete.</li> </ul>



	aware, of the defect (both structural and non-structural) in the work.	aware, of the defect in the work.	
Incomplete work	<ul style="list-style-type: none"> <li>• Within 6 months after the day the contract ends</li> </ul>	<ul style="list-style-type: none"> <li>• Claim must be lodged within <b>12 months</b> after the date of an insurable domestic building contract event.</li> </ul>	<ul style="list-style-type: none"> <li>• Within <b>14 days</b> after the day the damage to or destruction of the built work would have come to the attention of the consumer if the consumer was taking reasonable steps to monitor and protect the built work.</li> </ul>
Time for making a claim for accommodation, storage or removal assistance	<ul style="list-style-type: none"> <li>• No time limit.</li> </ul>	<ul style="list-style-type: none"> <li>• 28 days after the costs are incurred.</li> </ul>	<ul style="list-style-type: none"> <li>• 28 days after completion claim period ends</li> </ul>
<b>Notification to the builder</b>			
<p>Application:</p> <ul style="list-style-type: none"> <li>• Building owners are obliged to serve a complaint notice to the builder of defective, non-compliant or incomplete domestic building work when a claim for assistance is lodged.</li> <li>• The notification ensures the builder has a fair opportunity to respond and, if appropriate, rectify the work.</li> <li>• Builders must respond within the notice period.</li> <li>• A complaint notice is not required if the builder dies, disappears or becomes insolvent.</li> </ul>			
Length of the notice period	<ul style="list-style-type: none"> <li>• <u>No required notice</u></li> <li>• The building owner is not required to notify the builder of the defective, non-compliant or incomplete work before lodging a claim for assistance.</li> </ul>	<ul style="list-style-type: none"> <li>• <u>Prescribed notice period.</u></li> <li>• The building owner must give the builder 28 days to respond.</li> </ul>	<ul style="list-style-type: none"> <li>• <u>Flexible Notice period</u></li> <li>• The builder has a reasonable period to respond to the complaint notice for defective, non-compliant or incomplete domestic building work.</li> <li>• A reasonable period is determined on a case-by-case</li> </ul>



			basis.
Form the notification to the builder may take	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>Form approved by the BPC with prescribed details.</li> </ul>	<ul style="list-style-type: none"> <li>Email or letter acceptable.</li> </ul>
Details required in notification to builder	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>The name and contact details of the building owner making the claim;</li> <li>The address of the building site that relates to the claim;</li> <li>A description of the defective, non-compliant or incomplete domestic building work;</li> <li>The date the building owner first became aware of the incomplete, defective or non-compliant domestic building work (if applicable);</li> <li>Supporting information, including photographs, inspection reports or any other evidence to enable the builder or owner-builder to understand the nature of the defective, non-compliant or incomplete domestic building work;</li> </ul>	<ul style="list-style-type: none"> <li>Facts and circumstances giving rise to claim on licensed practitioner who carried out the work.</li> </ul>
Action required of the builder	<ul style="list-style-type: none"> <li>Builder must rectify defects within an un-prescribed "reasonable period".</li> </ul>	<ul style="list-style-type: none"> <li>Builder must respond within the prescribed notice period. The builder may accept or refuse to accept responsibility for the</li> </ul>	<ul style="list-style-type: none"> <li>Builder must rectify defects within reasonable period.</li> </ul>



		<p>defective, non-compliant or incomplete work.</p> <ul style="list-style-type: none"> <li>• If the builder refuses to accept responsibility for the defective, non-compliant or incomplete work, the builder must provide reasons for its position.</li> <li>• If the builder accepts responsibility for the defective, non-compliant or incomplete work, the builder explains the actions proposed to be taken to rectify or complete the work.</li> </ul>	
<p><b>The BPC to consider issuing a rectification order first</b></p>			
<ul style="list-style-type: none"> <li>• If a building owner has notified a builder and the issue has not been resolved, the BPC must assess the validity of the claim.</li> <li>• If the BPC is satisfied that the domestic building work is incomplete, non-compliant or defective, the BPC must consider issuing a rectification order, before deciding the claim.</li> </ul>			
<p>Should the BPC make an order to rectify before assessing the claim.</p>	<ul style="list-style-type: none"> <li>• N/A</li> </ul>	<ul style="list-style-type: none"> <li>• Before deciding whether to approve or reject a claim for assistance, the BPC must first determine whether to issue a rectification order to rectify or remedy the work.</li> </ul>	<ul style="list-style-type: none"> <li>• The BPC is given notice of a claim for assistance; and the BPC is of the opinion the domestic building work the subject of the claim is defective or incomplete.</li> <li>• However, before deciding to allow or disallow the claim, the BPC must decide whether to give a direction to rectify or remedy the work.</li> </ul>
<p><b>Lodging of an insurance claim with the BPC</b></p>			



<ul style="list-style-type: none"> <li>When a building owner lodges a claim with the BPC, they must provide the required information.</li> </ul>			
<p>Details required to lodge a claim</p>	<ul style="list-style-type: none"> <li>Complete claim form on BPC website.</li> </ul>	<ul style="list-style-type: none"> <li>Name, address and contact details of the building owner making the claim;</li> <li>Address of the building site for the domestic building work;</li> <li>Copy of the complaint notice given to builder or owner-builder (if applicable);</li> <li>a description of the defective, non-compliant or incomplete domestic building work;</li> <li>the date the building owner first became aware of the incomplete, defective or non-compliant domestic building work (as the case may be);</li> <li>If available, a copy of the insurable domestic building contract for the domestic building work that is the subject of the complaint notice, including any variations to the contract (if applicable);</li> <li>If a copy of the insurable domestic building contract is not available, written evidence of the existence of a contract for the carrying out of the domestic building work and any variations to the contract (if applicable);</li> </ul>	<ul style="list-style-type: none"> <li>Copy of the contract or written evidence of the existence of a contract and variations for the carrying out of the work, evidence the contract is validly terminated, evidence of all payments of work, and plans and specifications.</li> </ul>



		<ul style="list-style-type: none"> <li>Evidence of the insurable domestic building contract event (if applicable);</li> <li>Evidence that the contract has been validly terminated (if applicable);</li> <li>Details of any payments made in relation to the domestic building work (if applicable);</li> <li>A copy of any plans or specifications for the domestic building work (if applicable);</li> <li>Any other information reasonably required by the BPC to decide the claim</li> </ul>	
<b>Requirement to act in good faith</b>			
<p>Application:</p> <ul style="list-style-type: none"> <li>An obligation to act in good faith in relation to claims and notices requires a building owner and builder to act reasonably and honestly.</li> </ul>			
Who the requirement to act in good faith applies to	<ul style="list-style-type: none"> <li>A duty on the building owner and builder to be honest with the BPC.</li> </ul>	<ul style="list-style-type: none"> <li>Applies to both the building owner and practitioners. Both have a duty to act in good faith in relation to a claim for assistance.</li> </ul>	<ul style="list-style-type: none"> <li>A consumer for domestic building work has a duty to the BPC to act in good faith in relation to a claim for assistance.</li> </ul>
<b>Priority of payment on claim</b>			
<p>Application:</p> <ul style="list-style-type: none"> <li>Order in which payment for rectification of defects is paid (including for common property).</li> </ul>			
Order of priority of payment	<ul style="list-style-type: none"> <li>First to submit claim gets paid first.</li> </ul>	<ul style="list-style-type: none"> <li>First—in relation to building work that relates to the common property</li> </ul>	<ul style="list-style-type: none"> <li>The BPC must pay the claim in the following priority—</li> </ul>



		<ul style="list-style-type: none"> <li>• Second—any necessary building work on the homes that results from the work done on the common property.</li> <li>• Third—in relation to building work that relates to one or more of the homes.</li> </ul>	<ul style="list-style-type: none"> <li>○ firstly, for work for the common property for which the domestic building work the subject of the claim was carried out;</li> <li>○ secondly, for any building work reasonably required to be carried out to the detached dwellings, or a residential unit in the duplex or multiple dwelling, as a consequence of the work for the common property;</li> <li>○ thirdly, for work for the detached dwellings, or a residential unit in the duplex or multiple dwelling, for which the residential construction work the subject of the claim was carried out.</li> </ul>
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**Payment of claim (Who does the BPC pay the money to)**

Application:

- A prescribed method setting out how claims can be paid provides clarity to building owners and the BPC about how claims under the scheme are paid to relevant parties.



<p>In what ways should payment disbursement occur</p>	<ul style="list-style-type: none"> <li>No defined ways of payment disbursement</li> </ul>	<ul style="list-style-type: none"> <li>The BPC must pay the claim in one or more of the following ways:           <ol style="list-style-type: none"> <li>paying all or part of the amount to the person with whom the building owner or the BPC has entered into a contract for the carrying out of work in connection with the claim or</li> <li>pay all or part of the claim to the building owner making the claim;</li> <li>if the building owner making the claim is an owners corporation and the owners corporation gives the BPC a signed notice requesting all or part of the claim to be paid to one or more building owners of lots affected by the owners corporation—pay all or part of the claim to one or more of the building owners as stated in the notice.</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>BPC to decide payment disbursement on a case-by-case basis.</li> <li>However, the BPC may decide not to make a payment to the new contracted practitioner if the building owner has a retention amount under the contract for the residential construction work the subject of the claim; and has not paid the retention amount to the licensed contractor.</li> <li>Retention amount, for a contract, means an amount—           <ol style="list-style-type: none"> <li>payable as part of the contract price that, under the contract, may be withheld from payment to the licensed contractor—               <ol style="list-style-type: none"> <li>during the progress of the domestic building work the subject of the contract; or</li> <li>for a period after the completion of the domestic building work the subject of the contract; or</li> <li>both during the progress of the domestic building work the subject of the contract and for a period after the completion of the domestic building work the subject of the contract; and</li> </ol> </li> </ol> </li> </ul>
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			<p>(b) withheld for the purpose of giving financial protection to the building owner in relation to the need to correct defects in the domestic building work, or otherwise to secure, wholly or partly, the performance of the contract.</p>
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Department  
of Transport  
and Planning

 [Click to add text if required]