Regulatory Impact Statement
Draft Boarding Houses Regulation 2013
Document approval

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Executive Summary

The NSW Government has recently acted to address longstanding problems identified in the boarding house sector. The Boarding Houses Act 2012 (the Act) was passed by Parliament in October 2012 and parts of the Act commenced in January 2013. The remainder of the Act cannot commence until a supporting regulation is in place.

The draft Boarding Houses Regulation 2013 (the Regulation), has been developed for public consultation. This Regulatory Impact Statement (RIS) analyses the costs and benefits of the draft Regulation and compares these to other options to help inform public consultation. It includes specific questions to help focus stakeholder consultation, but comments are invited on any part of the draft Regulation.

The NSW Government recognises that the sector has an important role in providing affordable accommodation, particularly for people who may otherwise struggle to access private accommodation or have difficulty accessing social housing. Together the Act and draft Regulation are intended to address concerns that the sector is not consistently meeting current expectations of accommodation and service standards for boarding house residents, in particular, people with additional needs.

Many of these concerns are reflected in recent reports of the NSW Ombudsman and the State Coroner. A 2011 report by the Ombudsman refers to allegations of physical and sexual assault and intimidation of residents, lack of support in accessing healthcare, problems relating to food provision and hygiene, and restrictions placed on residents’ contact and communication with family and friends.1 A 2012 coronial inquiry into the deaths of six residents of a licensed boarding house reported on inadequate staff training and poor quality and coordination of health care.2

The Act establishes a simpler and stronger framework for the delivery of quality services in boarding houses and for the promotion and protection of the well being of residents. It provides for the registration of boarding houses as either a general boarding house or an assisted boarding house. An assisted boarding house accommodates two or more persons with additional needs, defined by the Act as persons with age related frailty, mental illness and/or other disability, who require assistance with daily personal care tasks such as bathing, meal preparation, or medication monitoring.

The Act provides for occupancy principles to be observed for residents of all registrable boarding houses. It also allows for service and accommodation standards for assisted boarding houses to be specified in the Regulation.

Since 1995, improvements to accommodation and service standards for boarding houses for people with disability have been limited. The draft Regulation seeks to

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1 NSW Ombudsman 2011, ‘More than board and lodging: the need for boarding house reform’. A special report to Parliament under section 31 of the Ombudsman Act 1974, pg. 6-10;

The draft Regulation includes many of the same provisions in relation to assisted boarding houses as those in the existing *Youth and Community Services Regulation 2010*. It also provides for:

- the introduction of new accommodation standards, in particular, the requirement for single occupancy rooms and the establishment of a limit of 30 residents – these standards apply to any new assisted boarding houses and to existing assisted boarding houses within five years of the Act’s commencement;
- enhancements to certain service and facilities standards including a requirement for call bells;
- the keeping of a number of additional records;
- minimum staffing levels and a process to assess sufficient levels;
- required qualifications and skills of staff;
- requirements for staff to undergo criminal record checks;
- the requirement to have procedures for dealing with complaints; and
- an increase in the range of notifiable incidents.

The draft Regulation also specifies additional particulars to be notified to the Register of Boarding Houses, permits the publication of information relating to enforcement action taken against general or assisted boarding houses, and sets out the penalties for relevant offences under the *Boarding House Act 2012*.

The costs and benefits of the draft Regulation have been identified and compared to the status quo and two other options.

Analysis of the options indicates the draft Regulation is preferred over the other options. It provides significant benefits to residents of assisted boarding houses by improving privacy and amenity and reducing risks to residents’ safety, welfare and wellbeing. The benefits would be for residents of all assisted boarding houses (new or existing), although some benefits would only be realised once all existing assisted boarding houses transitioned over the next 5 years to single occupancy rooms, the new staffing requirements, and a proposed maximum limit of 30 residents. This transition period provides scope for operators to plan for and adjust to the new requirements over time.

The draft Regulation includes additional administrative requirements for assisted boarding houses. The benefits of these are improved information about the sector and the support residents require – allowing the NSW Government to better understand and provide for residents – and greater capacity to enforce operator compliance with requirements.

The new requirements will impose costs on the operators of assisted boarding houses. The most substantial are:
1. capital costs if they choose to modify their existing premises (e.g. to create more single occupancy rooms), and
2. reduced revenue if the changes mean they can accommodate fewer residents.

It is possible that these costs will mean more operators of existing assisted boarding houses exit the industry compared to the status quo. A proportion of residents would then be displaced and need alternative accommodation, which is likely to be provided at relatively high cost to the NSW Government. Some assisted boarding house operators may elect to convert their premises to a general boarding house (since these are not subject to the higher accommodation and service standards) or exit the industry altogether. Conversely, the new registration and inspection requirements may help to identify currently unlicensed boarding houses that should be categorised as assisted boarding houses. This could result in an increase in the number of assisted boarding houses, but would depend on the effective implementation of compliance and enforcement mechanisms.

These newly identified assisted boarding houses would be required to meet the higher standards for the benefit of residents but would also face the higher costs of compliance. Some operators may elect to avoid these by changing their operations to qualify as general boarding houses.

Despite the higher costs associated with higher accommodation standards and services, some new operators may be attracted to the sector if the new regulatory framework is effective in improving its profile in the community and because of greater certainty around their obligations. During consultation on the Act, stakeholders reported there remains strong demand for this type of accommodation and high level analysis suggests operators can remain viable despite the higher costs. Returns to operators are strongly linked to property values (and their growth over time) as well as the revenue generated from boarding house fees.

The sustainability of the sector is a priority for the NSW Government. The Minister for Disability Services, the Minister for Family and Community Services, the Minister for Fair Trading and the Minister for Local Government will report back on the impacts on the Boarding House industry within 18 months of the commencement of the Act, including examining the need for further incentives and assistance to support the supply of boarding house accommodation.3 This has the potential to counteract the impact of any additional costs incurred by operators as a result of the new standards and support a more sustainable sector.

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Submissions on the draft Regulation can be made to:

Boarding House Reform  
Law & Justice Directorate  
Ageing, Disability and Home Care, Family and Community Services  
Level 4, 83 Clarence Street  
Sydney NSW 2000


Enquiries about this RIS and the draft Regulation may be directed to ADHC at [BoardingHouseReform@facs.nsw.gov.au](mailto:BoardingHouseReform@facs.nsw.gov.au) or on (02) 9248 0835.

Submissions must be received by **5pm on Monday 15 April 2013**.
1 Introduction and the need for government action

Boarding houses play an integral role in the provision of affordable housing, particularly for people who may otherwise struggle to access private accommodation, or have difficulty accessing social housing. There are also some residents who choose to live in boarding houses over other forms of accommodation as it suits their lifestyle in that they don’t have to provide furniture or because they are attracted to the sense of community in a boarding house.4

Boarding houses in NSW are currently either licensed or unlicensed. Those which accommodate two or more people with disability are currently required to be licensed under the Youth and Community Services Act 1973. The Youth and Community Services Regulation 2010 that supports this Act is also still in operation.

There is concern that existing regulation does not reflect current expectations about the quality of accommodation and services provided to people with additional needs.5 The NSW Government in Stronger Together: A new direction for disability services in NSW 2006-2016 committed to improving accommodation standards for people with disability, including redeveloping Ageing Disability and Home Care (ADHC)-owned or ADHC-funded residential centres that house more than 20 people.6

Longstanding concerns have also been expressed about boarding house conditions and their impact on the safety, welfare and wellbeing of boarding house residents.

Further, there are concerns that the existing regulatory framework creates difficulties for the administration of boarding houses more generally because of constraints for service providers accessing properties, and because requirements are split across different pieces of legislation. Other issues that have been identified include:

- inadequate information about the unlicensed sector;
- gaps in protections for residents; and
- a lack of occupancy rights.7

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5 A person with additional needs is defined in S36 of the Boarding Houses Act 2012 as: a person who has one or more of (i) an age related frailty, (ii) a mental illness within the meaning of the Mental Health Act 2007, (iii) a disability that is attributable to an intellectual, psychiatric, sensory, physical or like impairment or to a combination of such impairments; the condition is permanent or likely to be permanent; and, the condition results in the need for care or support services (whether or not of an ongoing nature) involving assistance with, or supervision of, daily tasks and personal care such as (but not limited to) bathing or bathing, the preparation of meals and the management of medication.
These concerns are reflected in reports from the NSW Ombudsman. A 2011 report from the Ombudsman to the NSW Parliament refers to allegations of physical and sexual assault, intimidation of residents, lack of support to access healthcare, problems relating to food provision and hygiene, and restrictions placed on residents’ access to a telephone, contact and communication with family and friends, the community and their own money.8

In a 2012 inquiry into the deaths of residents of the 300 Hostel in Marrickville Sydney, the State Coroner found that poor hygiene, malnutrition, neglect of premises, poor maintenance, failure to keep records, a lack of first aid training for staff, and over-prescription of antipsychotic medication by a local GP contributed to the death of six residents in the space of 14 months.9 These findings demonstrate the severity of the risks faced by boarding house residents, and highlight the need for government to act.10

1.1 New Act to address identified problems in the sector

In response to these concerns, the Boarding Houses Act 2012 was passed by the NSW Parliament in October 2012. The object of the Act is to:

“establish an appropriate regulatory framework for the delivery of quality services to residents of registrable boarding houses, and for the promotion and protection of the wellbeing of such residents, by:

(a) providing for a registration system for registrable boarding houses, and

(b) providing for certain occupancy principles to be observed with respect to the provision of accommodation to residents of registrable boarding houses and for appropriate mechanisms for the enforcements of those principles, and

(c) providing for the licensing and regulation of assisted boarding houses and their staff (including providing for service and accommodation standards at such boarding houses), and

(d) promoting the sustainability of, and continuous improvements in, the provision of services at registrable boarding houses.”

The object of Part 4 of the Act specifically is to enact provisions for standards that are consistent with the purposes and principles in the United Nations Convention on the Rights of Persons with Disabilities.11 These provisions seek to protect people with disability from discrimination, uphold their liberty and privacy, provide access to the highest attainable standard of health care without discrimination and protect their right to live independently and be included in the community. The

11 Including articles 5, 9, 12, 14, 15, 16, 19, 21, 22, 25, 26.
fundamental aim of the Convention is to ensure persons with disability are not discriminated against on the basis of disability, and are given the same rights as other people in the community.

Deficiencies identified with the previous regulatory regime were:

a. Difficulties for ADHC staff in gaining entry to licensed boarding houses for the purpose of effective monitoring and enforcement;
b. Difficulties for ADHC in obtaining a warrant to gain entry to unlicensed premises;
c. Inadequate penalties for offences outlined in the legislation;
d. Inadequate provision for the issue of temporary licenses in certain circumstances (such as when a licensee dies);
e. Inadequate requirements for criminal history checks on boarding house staff;
f. Ambiguous and outmoded licensing provisions;
g. Exclusion of smaller boarding houses from shared accommodation standards;
h. Difficulties for local councils in gathering information to support inspection activity;
i. Difficulties in resolving disputes in boarding houses and lack of rights protecting residents and operators;
j. Difficulties in gathering information about residents’ needs;
k. Difficulties in gathering information about trends in boarding house supply; and
l. Difficulties for local councils and operators caused by complex regulatory arrangements.

The box below provides some information about the scope and scale of the sector and identified problems, although comprehensive information about unlicensed / general boarding houses is not available.\textsuperscript{12}

\begin{quote}
\textbf{Scope and scale of the problem}
\begin{itemize}
  \item In December 2012 there were 23 boarding houses in NSW licensed to accommodate people with disability, providing 526 beds all together.\textsuperscript{a}
  \item It is estimated that 7,000 people live in unlicensed boarding houses in NSW.\textsuperscript{a}
  \item In a 2011 survey of 87 unlicensed boarding house residents in Sydney and Illawarra, “Residents indicated they often did not have appropriate facilities to prepare a meal and the dirty and unhygienic living conditions of the boarding house restricted cooking and eating”. Residents’ comments also indicated poor quality of accommodation, for example “bed is unhygienic”, “problems with vermin and draught”.\textsuperscript{a}
  \item A 2002 audit of fire safety by the then South Sydney City Council found that out of 100 unlicensed boarding houses inspected, over 95 required upgrading to meet current safety standards.”
\end{itemize}
\end{quote}
The Act goes some way to addressing the identified deficiencies, although its effectiveness will depend on the level of compliance.

Under the Act, a ‘registrable boarding house’ is either a ‘general boarding house’ or an ‘assisted boarding house’. Boarding premises are a ‘general boarding house’ if the premises provide beds, for fee or reward, for use by five or more residents but are not assisted boarding houses. An ‘assisted boarding house’ is required to be authorised under Part 4 of the Act and includes boarding premises that provide beds, for a fee or reward, for use by two or more residents with additional needs.

1.2 Parts of the new Act cannot commence without a supporting regulation

Part 2 of the Act concerning the registration of boarding houses commenced on 1 January 2013. This Part includes requirements for information to be recorded on the Register of Boarding Houses. It outlines responsibilities for proprietors in providing this information, and penalties for proprietors if they fail to provide required information, and it includes requirements for certain particulars of boarding houses to be made available for public access.

It also specifies details around initial compliance investigations for registered boarding houses, including powers of entry. This Part of the Act helps to ensure there is consistent up-to-date information on boarding houses in NSW, including the number of people living in boarding houses who may have additional needs. This will make it easier for government agencies and local councils to determine the type of support needed by boarding house residents and ensure that support is provided. It also addresses some of the difficulties around government authorities gaining entry into licensed boarding houses for effective monitoring and enforcement.

The remainder of the Act cannot commence until a supporting regulation is developed. Part 3 of the Act details requirements for occupancy agreements and principles for registrable boarding houses, and the enforcement of these. Once in operation, this part of the Act will help to ensure that residents’ rights are enforced and that disputes around occupancy principles are effectively resolved.

Part 4 of the Act deals with assisted boarding houses. It sets out broad provisions around the requirements for the authorisation and licensing of boarding houses, approval of managers, and compliance with and enforcement of the Act. It includes regulation making powers for accommodation and service standards but does not prescribe these.

The existing Youth and Community Services Regulation 2010 does prescribe current standards. However, it is proposed that a new Regulation that aligns more closely with the intent and provisions of the new Act replace the 2010 Regulation.
1.3 Current regulation has different standards for licensed boarding houses depending on when they were first licensed

Under the current regulatory framework, different standards apply to licensed boarding houses depending on whether they were licensed prior to or from 1995. This increases the complexity of the regulatory environment and results in different outcomes for residents. Although many of the individual conditions attached to licences are common, boarding houses licensed prior to 1995 (known as “A” licenses) may not meet all of the accommodation standards of those licensed later (“B” licenses).13

1.4 Draft Regulation

The Boarding Houses Regulation 2013 (the Regulation) will enable commencement of the remainder of the Act. The majority of the changes to current regulatory requirements relate to Part 4 of the Act and only apply to assisted boarding houses. The Regulation will replace many existing provisions in the Youth and Community Services Regulation 2010 but also seeks to improve outcomes for people with additional needs by requiring enhanced accommodation and service standards, in particular single occupancy rooms, and a maximum resident limit. These standards have been developed with reference to the United Nations Convention on the Rights of Persons with Disabilities and are in line with the NSW Government’s standards and commitments in Stronger Together.

The draft Regulation requires that currently licensed premises be required to comply with two significant changes to the accommodation standards within five years. This would mean all assisted boarding houses operating to the higher standards at the end of this period.

The remainder of the draft Regulation is proposed to apply immediately to currently licensed and to new assisted boarding houses. Improvements are proposed in the following areas:

- keeping of additional records and the detail of those records;
- the qualifications and skills of staff
- clarity about the minimum level of staffing required at all times, and a more rigorous method for ensuring sufficient staffing levels are maintained
- requirements for staff to undergo criminal record checks
- requirements for call bells in (at a minimum) all bathrooms, kitchens, and a hallway or common area on every floor, and
- an increase in the range of notifiable incidents.

Without further specification of standards in each of the areas, the remaining parts of the Act will not come into force and the identified deficiencies are likely to still at

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13 Premises licensed prior to 1995 operate in accordance with “A” licenses, under which there is no requirement for single rooms and no requirement for recreational space. Premises licensed since 1995 operate according to the standards set for “B” licences, and are required to provide a single occupancy room for every 20 persons accommodated, with no more than two people per room and three square metres of recreational space per person.
least partially exist. The regulatory environment will remain unduly complex, and expectations about the standard of care for people with additional needs will not be fully met. There will be a lack of consistency in the outcomes achieved for residents of assisted boarding houses, and no requirement for gradual improvement across the sector.

2 Objectives of government action

The objectives of government action in regards to implementing change in the boarding house sector are to:

1. Reduce risks to boarding house residents;
2. Simplify the compliance task for local councils and boarding house operators;
3. Improve amenity for residents of properties surrounding boarding houses, and improve public perception and acceptance of boarding houses; and
4. Maintain the viability and sustainability of the boarding house sector.

3 Consideration of options

Options for government intervention can be broadly categorised as either regulatory or non-regulatory. Regulation is generally justified where market forces or voluntary initiatives are not effective in driving a desired behavioural change or outcome.

Non-regulatory options are preferred where they are capable of achieving desired behavioural change. They may be more flexible, and have less cost for industry, and can in some cases lead to more effective outcomes than direct intervention by government.

The Boarding House sector has been subject to regulation for several decades and various reviews and analysis have concluded that improved regulatory standards and enforcement are necessary to protect the rights of residents and improve services for those who need assistance.

The Boarding Houses Act 2012 was passed by the NSW Government in October 2012 in response to problems identified in the sector. The majority of the Act cannot commence until a supporting regulation is developed. A non-regulatory option would mean that no subordinate regulation is made under the Act, and that the existing relevant provisions of the Youth and Community Services Regulation 2010 are allowed to lapse. If this occurs, there will be no legislative prescription regarding standards to be observed by licensees of boarding houses relating to the safety, welfare and well being of residents in the provision of accommodation and services. This would not allow the objectives of NSW Government action to be achieved and is not considered further in the analysis included in this Regulatory Impact Statement.
Four options have been developed for consideration:

Option A: A base case scenario in which no new regulation is introduced but the Youth and Community Services Regulation 2010 continues to operate.

Option B: The draft Boarding Houses Regulation 2013 is enacted except that two of the new requirements for assisted boarding houses - that all residents have a right to a single occupancy room and that there is a maximum resident limit of 30 people - only apply to new entrants in the assisted boarding house market.

Option C: The draft Boarding Houses Regulation 2013 is enacted as proposed, with all new requirements (including those for single occupancy rooms and maximum resident limits in assisted boarding houses) applying to both new entrants immediately and to existing licensees within five years after enactment.

Option D: The draft Boarding Houses Regulation 2013 is enacted, with all new requirements (including those for single occupancy rooms and maximum resident limits in assisted boarding houses) applying to both new entrants and existing licensees from the time the Regulation is enacted.

The four options are described in more detail below:

Option A: Maintain the status quo.

The status quo means that no new regulation is introduced, and existing regulation remains in place. Licensed boarding houses would continue to operate under Part 2 of the Act in conjunction with the applicable parts of Youth and Community Services Act 1973 and the Youth and Community Services Regulation 2010. New entrants would also operate under the same legislation and operate according to the standards set for “B” licences (those premises licensed since 1995). These premises are required to provide a single occupancy room for every 20 persons accommodated, with no more than two people per room and a minimum of 3 square metres of recreational space per person. Boarding houses licensed prior to 1995 would continue to operate under “A” licences which have no requirement for single rooms and no requirement for recreational space.

This option requires no change by existing operators, new operators, the government, residents, or other parties.

Option B: Maintain the status quo for existing boarding houses, and apply the new requirements under the draft Regulation to new entrants only.

Any new standards would apply to new entrants only, but not to existing licensees. Existing licensed boarding houses would continue to operate under Part 2 of the Act in conjunction with the applicable parts of Youth and Community Services Act 1973 and the Youth and Community Services Regulation 2010.

This option requires no change from existing licensees. Only new entrants to the industry would be required to comply with the higher standards in the Regulation and existing licensed boarding houses would never be required to adopt these.
Option C: Implement the Boarding Houses Regulation 2013 as proposed.

All new standards under the draft Regulation apply to new entrants of the assisted boarding house sector and existing licensees from the time the Regulation is enacted, with the exception of the requirements for single room occupancy and the maximum resident limit of 30. These particular requirements will only apply to existing licensees five years from the time the Regulation is enacted.

This option provides for a five year transition period for existing licensees to adjust to some of the new regulatory requirements, after which all authorised boarding houses would be required to operate under the same set of standards.

Currently unlicensed boarding houses identified as potentially having more than two residents with additional needs would be subject to assessment and may be considered new assisted boarding houses. These would need to comply with the requirements for assisted boarding houses without the five year transition period.

Option D: Implement the draft Boarding Houses Regulation 2013 to apply to new entrants and existing boarding houses from the time the Regulation is enacted.

This option would mean both new entrants and existing operators would be required to comply with all standards set out under the draft Regulation from the time the Regulation commences.

This option would mean there is little time for existing operators to adjust to stricter new regulatory requirements around the maximum number of residents, staffing levels and single occupancy bedrooms.

3.1 Approach to analysis of options

A multi-criteria analysis (MCA) has been used to assess the relative costs and benefits of each of the options.

Multi-criteria analysis compares options by referring to a set of objectives and measurable criteria to assess the extent to which the objectives are achieved. The detail of the analysis is included at Attachment A. The approach used was to:

- develop a set of criteria to assess each option against using the objectives for government action
- identify the types of costs and benefits that would potentially result from implementing the draft Regulation
- establish measures that could be used to determine the extent to which each option met each criterion, i.e. the amount of benefits and costs under each option - these included the number of residents affected, to what extent they would be affected, and when they would be affected
- score each option against each criterion - the status quo was given a score of zero so that the relative costs and benefits of other options could be assessed against it
- sum the scores for each option (we used weighting of the criterion based on judgments about the importance of each).
The costs and benefits of each option are discussed below, and the results of the MCA are presented in Appendix A.

3.2 Costs and benefits of each option

3.2.1 Option A: Maintain the status quo

Maintaining the status quo is the option against which the others are compared. Although there are no new costs and benefits for this option, industry trends suggest that the currently licensed boarding house sector will continue to decline over time. Only 23 assisted boarding houses (previously Licensed Residential Centres) remain compared to 194 in 1994.\(^{14}\) The sector is likely to shrink as remaining operators retire – several licensees are now aged over 60 and have indicated that they expect to retire in the next few years – or sell the premises and capitalise on rising property values.

In comparison, it is likely that a substantial number of the general boarding houses will continue to operate. Accurate trend data for general boarding houses is not available but Office of State Revenue (OSR) data indicates that land tax exemptions for boarding houses declined 17 per cent over the 10 year period to 2009, with 750 exemptions granted in 2011.\(^{15}\) In contrast, anecdotal reports from local councils suggest the sector may be growing in at least some areas with some observing a trend of increased targeting of the student and worker market. This has been the experience in Melbourne where it appears the number of rooming houses has quadrupled between 2006 and 2011, with rooming houses appearing for the first time in many outer suburbs of Melbourne.\(^{16}\)

Without incentives for operating assisted boarding houses relative to general boarding houses, it could be more attractive for some operators to shift to operating a general boarding house because less regulation applies. However, there can be greater risks with a potentially less stable resident population, fewer safety nets for monitoring clients, lower average fees, a less reliable means of collecting payments, and fewer ADHC funded support services (such as case management, primary and secondary health care services).\(^{17}\) In addition, across the sector, some operators may prefer to remain unregistered and accept the risk of penalty if discovered.

The decline of the assisted boarding house sector (formerly Licensed Residential Centres) will mean that over time some of the more than 500 existing residents will need to find alternate accommodation, as they no longer have the choice of living in a boarding house. The most common options are expected to be social housing, some form of aged care facility, or group homes, with few residents likely to access private housing. The cost to government of social housing, group homes

\(^{14}\) This represents industry decline of approximately 11 per cent per year compounded annually.

\(^{15}\) A survey of operators undertaken for a 2007 report to Housing NSW indicated that only 65 per cent of boarding house operators received a land tax exemption. The remainder stated that they did not meet the criteria set for the exemption (Hill PDA 2007, ‘NSW Boarding Accommodation Study prepared for NSW Department of Housing’, p162.)


\(^{17}\) For greater detail refer to the ADHC website, available at: http://www.adhc.nsw.gov.au/sp/delivering_disability_services/boarding_house_program
and aged care is relatively high compared to the cost of these residents continuing to live in privately operated assisted boarding houses.

Overall, while option A would cause the least disruption to the sector, it is likely to be ineffective in reducing risks to residents, and the sector is likely to continue to decline. It will not help to achieve the NSW Government’s objectives for the sector or lift standards to be consistent with the United Nations Convention on the Rights of Persons with Disabilities.

For the purpose of this analysis, costs and benefits of other options are assessed against the status quo. However, this does not mean that there are not real costs associated with doing nothing. This option does not address the concerns about the safety, welfare and wellbeing of residents that were raised by the NSW Ombudsman, which include allegations of physical and sexual assault and intimidation of residents, lack of support to access healthcare, problems relating to food provision and hygiene, and restrictions placed on residents’ access to a telephone, contact and communication with family and friends, the community and their own money.18 The 300 Hostel inquiry found that poor hygiene, malnutrition and over-prescription of antipsychotic medication contributed to the death of six Sydney boarding house residents. This demonstrates that these risks are real and significant.19

3.2.2 Types of costs and benefits for Options B, C and D.

Options B, C and D all involve the implementation of most of the requirements of the Boarding Houses Regulation 2013 but vary depending on by when and to whom the provisions are applied. Additional costs and / or benefits for residents, operators and government will occur where the requirements of the draft Regulation differ from the status quo.

The level (or amount) of these costs and benefits are different for each option. However the types of costs and benefits under all of these options are essentially the same. Through analysis of the draft Regulation, desktop research, and some initial consultation with stakeholders, the following types of potential costs and benefits of the draft Regulation have been identified.

3.2.2.1 Costs: Operators of boarding houses

Operators of boarding houses could incur additional costs in the following areas.

Administration and records management

When the Regulation comes into force, Part 3 of the Act will commence. Under Part 3 there is an obligation for general and assisted boarding house proprietors to ensure that there is a written occupancy agreement between the proprietor and a resident of the house that gives effect to the occupancy principles set out in Schedule 1 of the Act. These principles require among other things, the provision of written receipts to residents for money paid to the proprietor. These new

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requirements could impose additional administration costs for some boarding house operators where occupancy agreements are not currently used or receipts not provided.

Part 3 of the draft Regulation, which is only applicable to assisted boarding houses, prescribes a number of instances where assisted boarding house operators are required to provide information, keep records or perform tasks that could increase the administration burden on these operators. Additional requirements include:

- providing information when applying for a boarding house authorisation or approval of a boarding house manager, such as information to demonstrate capacity and experience
- providing information to prospective residents about room numbers, services to be provided, fees payable, and procedures for handling complaints
- developing, maintaining and implementing policies for ethical conduct by staff members, procedures for handling complaints, confidentiality of records, illness, accident and emergency treatment, administration of medication, infectious diseases, and food and nutrition
- keeping records in relation to residents, staff, health matters, complaints, and fire safety requirements
- reporting matters to the Director-General, such as the issuing to a resident of a notice to vacate, alleged instances of physical assault, alleged serious neglect or ill-treatment of a resident, alleged fraud committed against a resident by a staff member, notices about complaints, records of any Police Event Numbers relating to any matters reported to NSW Police, failure to comply with planning requirements, change in management, change in contact details and any significant change of circumstances of the licensee, and
- notifying the Director-General in writing of any reduction of staffing hours or the number of staff members at the authorised boarding house.

**Capital improvements**

The draft Regulation prescribes a maximum number of residents that may occupy the same bedroom in an assisted boarding house. Where residents know each other and have requested a shared bedroom, the maximum is two, and in any other case, one. Based on available information about existing assisted boarding houses, almost 90 per cent do not provide single occupancy bedrooms for all residents, and nearly 20 per cent have rooms in which more than two people sleep. It is not known how many residents would prefer to share a room over having their own room.

In order to comply with the single occupancy requirement, some assisted boarding house operators may opt to make capital improvements to their premises in order to create more separate bedrooms and continue to accommodate existing residents. Alternatively, the capacity of the boarding house may be reduced and residents will need to find alternative accommodation.
The single occupancy requirements are only for those residents who have additional needs, hence are not necessarily required for all residents of an assisted boarding house.

The draft Regulation includes a requirement that each bedroom be a minimum of 5.5 square metres per room per person. This is the size required of general boarding houses under clause 46 of the Public Health Regulation 2012.\(^{20}\)

However, assisted boarding houses currently have a license condition that the minimum size for a bedroom is 7.5 square metres for a single occupant and 5.5 square metres per person in a shared room, a total of 11 square metres for a room shared by 2 people. These license requirements are in line with similar standards in Queensland and Victoria. In Queensland, under the Residential Services Building Standard 2007 the minimum space for a bedroom is 7.5 square meters for one person or 11 square metres for two people.\(^{21}\) In Victoria the Public Health and Wellbeing Regulations 2009 sets the minimum size of a bedroom in a rooming house at 7.5 square metres for a single room, or 12 square metres for two residents.\(^{22}\)

The draft Regulation also states that each bedroom must be capable of being locked, and that sufficient functioning call bells be located on the premises to allow additional needs residents to contact staff, including a call bell in the hallway or common area on every floor, in the kitchen and in all bathrooms. Based on initial consultation, these are not currently in place at all existing licenced boarding houses. Under the draft Regulation, the cost of installing them would be borne by operators. The costs of these would vary according to the size and nature of boarding house premises, as well as the type of call system used.\(^{23}\) For example, a wireless system could be a cost effective option for some premises.

**Staffing**

The draft Regulation requires operators of assisted boarding houses to provide sufficient staffing, and at a minimum requires at least one staff member to be present at all times. Sufficient staff levels can be determined using a staff needs assessment tool or by the Director-General. At least one staff member on duty needs to have a current first aid certificate and be capable of attending to first aid emergencies expeditiously.

The Youth and Community Services Regulation 2010 currently states that “an adequate number of staff must be on duty at the licensed premises at all times” (clause 18). The draft Regulation aims to provide more clarity about minimum staffing levels and a process for assessing these including through the use of the staff needs assessment tool.

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\(^{20}\) Clause 83 of the Local Government (General) Regulation 2005 states that general boarding houses are included in the definition of “shared accommodation” for the purposes of the Regulation; and Schedule 2 which states that the maximum number of people accommodation in a bedroom must comply with the Public Health Act or Regulation. The relevant Regulation is now clause 46 of the Public Health Regulation 2012.


\(^{23}\) Based on product search on the website of Independent Living Centre of NSW at http://www.ilcnsw.asn.au/ and market research.
This requirement may impose additional staffing costs on several operators. For example, it is estimated that five operators have staff present only during business hours or throughout the day. Unless it is determined by the Director General that these premises do not require 24 hour staffing, staff costs could potentially increase. The assessment tool will also provide a more objective way of determining sufficient staffing levels during the day.

The requirement that at least one on-duty staff member hold a current first aid qualification, may also impose costs on some operators. ADHC has in the past arranged for free first aid training to be provided to staff of licensed boarding houses. If free training were not available, operators may need to pay around $200 per staff member for a basic first aid course.24

The draft Regulation also requires proprietors to undertake criminal record checks of staff. This will result in additional costs. It is proposed that ADHC would reimburse existing operators for the initial round of criminal record checks. Operators would be required to meet this cost in the future for each employee every three years. NSW Businesslink, a specialist provider of outsourced services to the NSW Government, charges $37 for an employee to undertake a criminal record check, which covers the cost of charges imposed by CrimTrac.

Reduction in revenue

The requirement for single occupancy bedrooms is likely to lead to a reduction in revenue for many assisted boarding house operators. In some cases, renovations may allow the reconfiguration of existing spaces into more separate rooms. However, based on the existing number of rooms in many premises, the total number of residents accommodated will decrease. Several operators indicated that this may mean they do not continue operating an assisted boarding house. The impact of this is moderated by it only applying to residents with additional needs and because a proportion of residents may have a preference to continue sharing a room. In addition, the reduced revenue would be partially offset by reduced staffing requirements for fewer residents (in some cases) and reduced food, administration and other expenses that vary depending on the number of residents.

The draft Regulation also requires that the maximum number of residents of an assisted boarding house not exceed 30. Four assisted boarding houses are currently licensed for over 30 residents. In order to comply with the draft Regulation, the four operators would be required to reduce the total number of residents they accommodate. This would reduce revenue for these operations, and some operators reported it would significantly affect their viability.

Other potential costs

When Part 3 of the Act commences along with the Regulation, all boarding house operators and residents will have access to the Consumer, Trader and Tenancy Tribunal (CTTT) for the resolution of an occupancy principles dispute. Boarding

24 St Johns Ambulance NSW charges $195 for a 2 day ‘Apply First Aid Training’ course, see https://secure.stjohn.org.au/nswshop/courses-item.asp?courseid=42
house operators may incur costs in time required for attendance at the CTTT. Given that access to the CTTT or a comparable forum has not previously been available, it is difficult to estimate the likely frequency of CTTT attendance. The CTTT could only be used in instances where operators had tried to resolve the dispute informally. Operators may also incur costs in the event that a resident complains to the CTTT that an operator is failing to comply with requirements of the occupancy principles set out in Schedule 1 of the Act. To a large extent, these principles are either already required by other legislation, or represent generally observed business practices, and therefore should not represent a significant additional burden for operators. The guidance provided by the principles and the mechanisms available through the CTTT may also enable issues or disputes to be resolved more efficiently.

Operators may be issued with a penalty notice for committing an offence under the Act or the Regulation.\(^{25}\) In this circumstance operators will be required to pay the applicable penalty. Currently breaches of conditions do not attract penalty notices but significant breaches could result in a prosecution. Capacity to issue penalty notices could increase the likelihood that lesser breaches are penalised but also provides a stronger incentive for operators to comply with their legal obligations.

### 3.2.2.2 Costs: NSW Government

The NSW Government could incur additional costs in the following areas.

**Administration**

Administration costs to government are likely to increase in a number of ways, including:

- one off start up costs to the CTTT for the development of new electronic forms and related changes to the case management system and Incourt system - these have been estimated at between $10,000 and $20,000
- ongoing costs incurred by the CTTT to hear and resolve disputes
- development of procedures for administering compliance with the new requirements under the draft Regulation. This will include an increase in staff costs for ADHC to collect and assess additional information to be provided to government by assisted boarding house operators. This could also include developing and administering inspection, compliance and enforcement procedures and protocols for assisted boarding houses, such as creating a compliance checklist or issuing penalty notices for breaches.

**Enforcement**

When Part 4 of the Act commences along with the Regulation, the Director-General of FACS will have the power to appoint enforcement officers to ensure that provisions of this Part (and associated parts of the draft Regulation) are being complied with. Enforcement officers may enter an assisted boarding house at any time to inspect or collect evidence for enforcement purposes. There are a number of other enforcement tools that may be applied by the Director-General under Part

\(^{25}\) Details of penalty notice offences yet to be specified.
4. These include the power to require the provision of documents, the power to require answers to questions, the ability to issue a compliance notice requiring that a contravention of Part 4 be remedied (not currently available under the Youth and Community Services Act 1973), and the ability to impose penalties for non-compliance with any of these requests. There are currently no enforcement officers employed. The costs of enforcement incurred by government will depend on whether the Director-General appoints enforcement officers, and how much training is required in the new procedures (e.g. issuing of compliance and penalty notices).

Provision of alternative accommodation to residents with additional needs

There are two particular standards contained in the draft Regulation that have significant potential to increase costs for assisted boarding houses to the extent some may elect to discontinue operating, or to reduce the number of residents that can be accommodated in existing assisted boarding houses. These are:

- restriction on the number of residents allowed to occupy each room; and
- restriction on the maximum total number of residents accommodated in an assisted boarding house.

If a resident can no longer be accommodated by the assisted boarding house sector, the NSW Government may become responsible for providing that resident with alternative accommodation. ADHC provided an estimated $66.6 million in 2011-12 for community based accommodation support places to the 665 people who were displaced by assisted boarding house (formerly licensed residential centre) closures since 1998. This estimate is based on an assessment of residents’ needs and a review of outcomes from previous closures. This cost equates to $100,150 per resident per year, although a significant proportion of residents affected by closures also move to unfunded and non-24/7 funded accommodation options.

3.2.2.3 Costs: Residents of assisted boarding houses

Assisted boarding house residents could incur additional costs in the following areas.

Increased fees

If the draft Regulation increases costs for operators of assisted boarding houses, there is the possibility they could try to recoup these costs by increasing fees from residents. Based on initial consultation with boarding house operators, it appears most assisted boarding houses charge the maximum (or close to the maximum) fees that are allowed in order to still qualify for a land tax exemption, and would not consider increasing fees a viable means of recovering additional costs imposed by the draft Regulation. Three of the four operators consulted during preparation of this RIS indicated they charged the maximum fee of $750 a fortnight for each resident.  26 This equates to 84 per cent of the Disability Support Pension with rent

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26 For a NSW boarding house to be exempt from land tax for the 2012 tax year, the maxim tariff charged per room where full board and lodging was provided must have been no more than $323 per week for single accommodation. These amounts are GST exclusive and applied in the 2012 calendar. If GST is included and allowance is made for an increase in 2013, this
assistance and an additional supplement for ill health. There is limited capacity for many residents who rely on the Disability Support Pension to pay additional fees and it is considered unlikely that residents would be faced with higher fees.

It is possible that fees could increase for residents currently accommodated in unlicensed boarding houses that qualify as assisted boarding houses. If operators in these circumstances choose to begin operating an assisted boarding house they may increase the fees charged to meet the higher standards. Initial consultation, and submissions received on the Act suggest fees for unlicensed boarding houses are significantly lower than assisted boarding houses, partly reflecting that fewer services (for example meals) are provided in most cases.

Cost of finding alternative accommodation

There is potential that alternative accommodation for some residents of assisted boarding houses will be required. In these cases it is assumed that the NSW Government bears the cost of finding the new accommodation. In addition, there are likely to be emotional and psychological costs to residents from being displaced, particularly those residents who have lived in the premises for a long time and have limited social support.

Consultation questions on costs of new regulatory requirements:

1. To what extent will the additional administrative costs be a burden on operators? How much, if any, additional staff time will be required?

2. Should current and/or future assisted boarding houses be required to provide a minimum of 7.5 square metres for a single occupancy room in line with previous licence conditions, or 5.5 square metres consistent with the NSW Public Health Regulation 2012?

3. What should be the minimum size for a room two residents elect to share?

4. What potential do operators have to reconfigure their properties to create more single rooms?

5. What additional costs would operators incur for installing call bells in hallways/common areas, kitchen/s, bathrooms, and elsewhere? How would residents’ use of call bells affect operations?

6. *What capacity do operators have to reconfigure existing rooms into single occupancy rooms that meet space requirements?*

7. *To what extent do operators expect these requirements to reduce revenue?*

8. *What expenses are likely to decrease in line with fewer residents?*

### 3.2.2.4 Benefits: Residents of assisted boarding houses

The draft Regulation could reduce risks to boarding house residents by providing them with the following benefits.

**Increased financial protection**

When the Regulation comes into force, Part 3 of the Act, which is concerned with occupancy agreements and principles will also commence. The introduction of occupancy rights and access to the CTTT (given there has been an attempt to resolve a dispute informally) will improve means for resolving disputes and enforcing the rights of residents. Access to the CTTT is estimated to significantly reduce the cost and complexity for residents compared to court action, which is the only dispute resolution mechanism currently available. The occupancy principles include requirements around utility charges, security deposits, provision of written receipts, and the prohibition of financial penalties for breaches of agreement or the house rules. These principles contribute to increased financial protection for residents, and are consistent with Article 12 of the United National Convention on the Rights of Persons with Disabilities, ‘*Equal recognition before the law*’.\(^{27}\)

**Reduced risks to health and safety**

Improved occupancy rights similarly contribute to reducing safety risks to boarding house residents by requiring premises to be reasonably secure. Part 4 of the Act provides further prescription for matters relating to the health and safety of residents with additional needs. It enables authorised service providers and advocates to enter assisted boarding houses without consent or warrant, to determine whether a resident wishes to access support or advocacy services. This power is not provided under the *Youth and Community Services Act 1973*. ADHC has advised that in the past, some assisted boarding house operators have been reluctant to allow support services and advocacy services to enter premises, including cases where residents were at risk of physical harm.\(^{28}\) New entry powers for service providers could help to reduce health and safety risks when the

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\(^{27}\) Refer to 5, 9, 12, 14, 15, 16, 19, 21, 22, 25, 26

Regulation is enacted. Additionally, the draft Regulation itself provides stricter requirements for staff and call bells. Having a staff member qualified in first aid present at all times, call bells in bathrooms, kitchens and hallways/common areas on every floor, and imposing a requirement to report incidents involving assaults, neglect and ill-treatment, are expected to further reduce health and safety risks, such as those identified in the Ombudsman’s 2011 report. These requirements are consistent with Article 25 of the United Nations Convention on the Rights of Persons with Disabilities: ‘Health’.

**Improved living standards**

Improved occupancy rights contribute to improved living standards for boarding house residents by requiring premises to be reasonably clean and in a reasonable state of repair.

The new requirement for single occupancy rooms as prescribed by the draft Regulation is aimed at improving living standards for residents. The provision of single occupancy rooms is consistent with Article 22 ‘Respect for Privacy’ and Article 28 ‘Adequate standard of living and social protection’ of the United Nations Convention on the Rights of Persons with Disabilities.

Similarly a limit on the total number of residents in an assisted boarding house offers social protection and improves the access of residents to the wider community. Research has consistently found that residents of larger residential centres experience isolation and have poorer social outcomes than those living in smaller residences.

**3.2.2.5 Benefits: local councils and boarding house operators**

The draft Regulation could simplify the compliance task for councils and boarding house operators in the following ways.

*Improving the ability of local councils and FACS to access assisted boarding houses*

Part 2 of the Act (already in force) provides for a mandatory one-off inspection of all boarding houses by local councils within 12 months of registration to determine compliance with planning, building and fire safety requirements. Part 4 of the Act (which will commence at the same time as the Regulation) prescribes the powers of entry for FACS enforcement officers and authorised service providers. Combined powers under these Parts should improve overall access to assisted boarding houses. With local councils taking on a greater role in encouraging compliance with the standards, FACS should be able to focus monitoring activity on support required by people with additional needs and other standards specifically applicable to assisted boarding houses.

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Improving enforcement of boarding house legislation both legally and in practice

One of the difficulties that ADHC has faced in its enforcement of the Youth and Community Services Act 1973 is that initiating court proceedings has generally not been considered cost effective, given the low value of the maximum penalties. Increased penalty values prescribed by the draft Regulation will assist in improving enforcement of boarding house legislation. Additional improvements in enforcement will depend on any changes in monitoring and inspection activities. The approach to enforcement is still being developed. Enforcement will also be improved by the ability to issue compliance notices that clearly state alleged contraventions and timeframes in which those contraventions must be addressed. This will help to ensure a clearer, more consistent approach to enforcement.

Improving information about the boarding house sector

While the Register of Boarding Houses provided for in Part 2 of the Act (already in force) is likely to provide the greatest improvement in information available about the boarding house sector, the draft Regulation should also help to achieve this goal. The draft Regulation prescribes additional records to be kept and additional reporting requirements for assisted boarding houses. Accurate and accessible records regarding staff, occupancy agreements and complaints will help to reduce the compliance burden for FACS staff. An increase in the range of incidents that need to be reported will also help FACS to identify problems in the assisted boarding house industry before they become systemic.

3.2.2.6 Benefits: local communities

The draft Regulation could improve amenity for residents of properties surrounding assisted boarding houses and improve public perception of them as follows.

Improving living standards for residents of assisted boarding houses

The draft Regulation aims to improve living standards for residents of assisted boarding houses through a number of provisions as described above. Occupancy principles also help with this task. Improved living standards are thought to be correlated with lower levels of anti-social behaviour, and thus improved amenity for properties surrounding boarding houses. Improved standards would also help to meet community expectations of housing quality, and improve the public perception of the boarding house industry.

Establishing a maximum number of allowable residents in an assisted boarding house

Restricting the number of residents living at an assisted boarding house to a maximum of 30, aims to avoid the potential sense of institutionalisation that could occur in larger boarding houses. Research has shown that this improves residents’ notions of community citizenship, and leads to greater participation and integration.
in society. It should also help to improve public perception of boarding houses and improved amenity for surrounding properties.

**Improving enforcement of boarding house legislation both legally and in practice**

Improved enforcement mechanisms for boarding house legislation should not only benefit residents and contribute to more effective compliance, but should also improve public perceptions and amenity for surrounding residents of boarding houses. Greater likelihood of standards being enforced should lead to greater compliance with these standards. Better standards of accommodation are likely to improve amenity for surrounding properties (e.g. less vermin, less litter). Better service standards are likely to increase community acceptance of the boarding house industry as a suitable form of low cost housing.

### 3.2.2.7 Benefits: improving the viability of the assisted boarding house sector

The draft Regulation could help to maintain the viability and sustainability of the assisted boarding house sector through improved accommodation and service standards. Where the needs of residents are not being met, there is an increased likelihood that they will be forced to use acute services such as hospital emergency departments, crisis accommodation, and in-patient mental health services. This may result in greater costs to government than provision of lower level services in the community.

However, given that the draft Regulation is likely to impose significant additional costs for some assisted boarding house operators, it could increase the rate of closure in the industry. If enough existing operators find it less costly to close and either sell the premises or use it for another purpose (such as to run a general boarding house not subject to the same level of regulation), than to operate under the new requirements, the viability of the assisted boarding house sector could be threatened.

Any additional closures could be expected to increase the burden on the social housing system and the social housing wait list. In many cases, displaced boarding house residents with additional needs would require supported living accommodation options, further increasing costs for government.

The higher costs of improved service and accommodation standards, improved resident protections, and increased information provision could act as a disincentive for new entrants (operators) into the assisted boarding house market, given that major determinants of boarding house supply are land values and asset management issues. Conversely, an improved profile for the sector and greater certainty around obligations may attract some new operators.

The following sections compare the relative scale of the benefits and options for each of options B, C and D.

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31 Drake, Gabrielle M. 2010. The privatisation of the back wards: The accommodation of people with intellectual disability and people with mental illness in licensed boarding houses in Sydney, School of Occupational Therapy and Social Work Curtin University, pg. 139.
Consultation questions on benefits of new regulatory requirements:

9. Are the proposed requirements adequate in meeting the privacy needs of residents?

10. Are the provisions likely to be effective in improving the protection of residents’ health and safety?

11. How should a resident’s preference for a shared room in an assisted boarding house be assessed?

12. Is the proposed maximum number of 30 residents appropriate? Why or why not?

3.2.3 Assessment of Option B: New standards to apply to new boarding houses only

Under this option, new assisted boarding houses will provide accommodation more consistent with community expectations. Residents in new assisted boarding houses will have greater privacy with less risk of experiencing an institutionalised or unsafe environment, and improved access to appropriate health care, social, legal and financial services. However, existing assisted boarding houses will not need to meet key new requirements limiting the benefits to a small portion of residents with existing residents potentially missing out on higher standards of care.

There is a risk that the higher standards will provide little incentive for new assisted boarding houses to open and mean a greater reliance on other forms of accommodation for residents who need assistance, thereby reducing choice and increasing the costs for government. There is also a possibility that more general boarding houses will be identified through the registration process that should by definition be operating as ‘assisted boarding houses’. It is not known how many premises this might affect. The costs of complying with the new standards for assisted boarding houses could be a disincentive to be classified as an assisted boarding house and it is possible these operators will either discontinue offering accommodation to people with additional needs or avoid detection with residents in these houses missing out on the benefits of the higher accommodation and service standards.

Option B is assessed as being worse than the status quo, because it offers benefits to a very small proportion of residents and does not provide a strong incentive for new entrants. Its net effect will be to detract from achieving NSW Government objectives, particularly for a more sustainable sector, and it will only

3.2.3.1 Costs of Option B

Costs for new boarding house operators

All new operators would experience some additional administration costs compared to the status quo. These costs are likely to be a small part of the overall administrative burden. New assisted boarding house operators could incur some additional costs for capital improvements, and may receive less revenue than if they started up under the status quo.

Costs for government

The NSW Government would incur administration costs for start up of the CTTT ($10,000 - $20,000) as well as ongoing costs for resolving disputes and for developing compliance procedures for the assisted boarding house industry (to apply to new entrants only). As there will be very few new entrants this cost would be almost negligible, as would any additional enforcement costs. Any costs for provision of alternative housing to additional needs residents is estimated to be the same as under the status quo.

Costs to residents

There is not likely to be any material change in costs to residents compared to the status quo.

3.2.3.2 Benefits of Option B

Reducing risks to boarding house residents

There would be a very small reduction in risks to assisted boarding house residents compared to the status quo. The only change would be for residents of new assisted boarding houses, likely to represent less than two per cent of total general boarding house residents. The number of residents with assisted needs who would be likely to experience benefits in the each year would likely be very small.

Simplifying the compliance task for councils and boarding house operators

The benefits from a simplified compliance task will be small since access improvements for FACS enforcement officers (which will commence under Part 4 of the Act at the same time as the Regulation commences), and improvements in information would only apply to the small number of new assisted boarding houses.

Improved amenity for residents of properties surrounding boarding houses and improved public perception of boarding houses

Improvements for surrounding residents and changes in public perception are likely to be marginal compared to the status quo because of the small number of new assisted boarding houses.
Maintaining the viability and sustainability of the boarding house sector

The viability of the sector is estimated to be marginally worse under this option than the status quo, as overall decline in the sector will be similar to status quo decline, however new assisted boarding houses face additional barriers to entering the industry compared to the status quo.

3.2.4 Assessment of Option C: Proposed Regulation

All residents will experience the benefits of the higher standards for assisted boarding houses under this option as all of the new standards are extended to existing licensed boarding houses (although they will have five years to meet the following requirements):

1. Single occupancy rooms
2. Maximum number of 30 residents.

It is anticipated that nearly all assisted boarding house operators will be affected by the costs of these requirements. A small number may have to undertake significant capital works, or accept less revenue. A portion of these additional costs may be offset by reduced expenses if the total number of residents is reduced. The five year transition period provides operators the opportunity to find the least cost way to adjust to the new requirements. However, it is also likely to be relatively easy for operators to capitalise on their past investment and sell their property or convert their premises to another use (potentially a general boarding house or if zoning allows a hostel), and operate without any of these additional requirements. It is assumed that some operators will take this course of action.

Similarly, boarding houses not yet licensed and likely to be classified as an assisted boarding house may try and avoid detection or discontinue providing accommodation for residents with additional needs, resulting in these residents missing out on higher standards of care. The extent to which this occurs will depend on the effectiveness of enforcement and compliance activity.

Option C performs the best of the options compared to the status quo although the net score in the multi-criteria analysis is the same as for the status quo. The proposed changes are necessary to achieve the standards expected by the community for boarding house residents, particularly in assisted boarding houses, and for that reason Option C is preferred to the status quo despite the increased costs for operators which can affect the sustainability of the sector. Option C helps to achieve most of the NSW Government’s objectives for the sector including reducing risks for residents with additional needs, simplifying the compliance task and improving amenity for residents and neighbourhoods. It also improves consistency with the United Nations Convention on the Rights of Persons with Disabilities, in part immediately, and more broadly after the 5 year transition period.

Further, the NSW Government has previously recognised the potential impacts of higher standards on the sustainability of the sector and has committed to reviewing whether additional incentives should be provided to operators over the next 18 months. The introduction of additional incentives may reduce the negative impacts
of higher operating costs and if well targeted, improve the sustainability of the sector.

3.2.4.1 Costs of Option C

Costs for boarding house operators

Additional costs for general boarding house operators are estimated to be marginal. Additional costs for existing licensed boarding house operators are likely to be material in the first five years and include upgrades to call bells, lockable bedroom doors, and some capital works costs for those operators who plan to stay in the industry beyond five years. There may be an increase in staffing costs for some of the remaining operators, and after five years, lost revenue if they accommodate fewer residents. Costs to operators under this option will be significantly higher compared to the status quo but should be partially offset by reduced expenses because of potentially fewer residents.

Costs for government

The NSW Government would incur administration costs for start up of use of the CTTT as well as ongoing costs for resolving matters and for developing compliance procedures for the boarding house industry. There would also be some additional enforcement costs. Costs for provision of alternative housing to additional needs residents is estimated to be significantly higher than the status quo as it estimated that more assisted boarding houses will close down because of the higher cost of compliance under this option.

3.2.4.2 Benefits of Option C

Reducing risks to boarding house residents

This option will significantly reduce risks to residents. Some of this reduction would take place for all boarding house residents immediately, including assisted boarding house residents. After five years, risks for those residents still living in assisted boarding house accommodation would be reduced even further.

Simplifying the compliance task for councils and boarding house operators

Access improvements for FACS enforcement officers will apply to all new and existing assisted boarding houses and will improve the efficiency and effectiveness of the compliance task to a large extent. Enforcement and information on the sector is also expected to improve.

Improved amenity for residents of properties surrounding boarding houses and improve public perception of boarding houses

There will be a significant benefit for surrounding residents and a positive impact on public perception is likely compared to the status quo, based on some improved standards coming into force immediately and others in five years time for existing operators.
Maintaining the viability and sustainability of the boarding house sector

The viability of the assisted boarding house sector is likely to be somewhat worse under this option compared to the status quo. The sector could decline at the same rate for the first five years, but could experience a sharper decline from then due to an increase in costs for existing operators in the absence of any additional government incentives.

3.2.5 Assessment of Option D: All new standards apply immediately to all operators

Option D is likely to trigger a “shock” to the assisted boarding house industry with all of the new standards applying to all operators from the time of commencement. In particular, the lack of time to adjust to the requirement for single occupancy rooms and the maximum limit on the number of residents would significantly affect operators’ costs and revenue reducing the attractiveness of staying in the business. These requirements would affect nearly all existing licensed operators.

Relative to option C, the decline in the assisted boarding house sector would not only be more immediate but more severe because the lack of transition time reduces flexibility for operators to adapt. The incentive to convert to a general boarding house would also be stronger. Similarly to other options, it is possible there will be some new entrants to the assisted boarding house market but the barriers to entry are high relative to the status quo.

The benefits of option D are relatively high for all residents of assisted boarding houses as all remaining residents will experience them. However, because it is likely a number of assisted boarding houses will cease operating, there will be fewer residents to enjoy the benefits.

The relative impact on the general boarding house sector would be about the same as for options A and C.

Option D performs the worst when compared to the other options (including the status quo) because of the more severe impact on sustainability of the industry. Like option C it helps to achieve NSW Government objectives relating to reducing risks to residents, simplifying compliance and improved amenity. It also improves consistency with the United Nations Convention on the Rights of Persons with Disabilities for all assisted boarding house residents immediately. As with option C, incentives could be provided to reduce the risk to the industry’s viability. However, it is expected that more incentives would be required immediately as there is less opportunity for operators to transition to compliance with the new requirements on their own.

3.2.5.1 Costs of Option D

Costs for new boarding house operators

All operators would experience some additional administration costs compared to the status quo. These costs are likely to be a small part of the overall administrative burden. Assisted boarding house operators that choose to remain in the sector could incur some additional costs for capital improvements, and may
receive less revenue because the number of residents they could accommodate would be reduced.

**Costs for government**

The NSW Government would incur administration costs for start up of the CTTT as well as ongoing costs for resolving disputes and for developing compliance procedures for the assisted boarding house. These costs would be higher compared to the other options in the short term as would any additional enforcement costs as more operators would need to comply immediately. Costs for provision of alternative housing to additional needs residents is estimated to be higher relative to the other options as more residents would be displaced more quickly.

**Costs to residents**

There is not likely to be any material change in costs to residents compared to the status quo.

3.2.5.2 Benefits of Option D

**Reducing risks to boarding house residents**

This option would reduce the risks to assisted boarding house residents more than any other option. However, there would be fewer residents to benefit if, as anticipated, more assisted boarding houses close.

**Simplifying the compliance task for councils and boarding house operators**

Access improvements for FACS enforcement officers and council staff as well as enhanced information collection will apply to all boarding houses and would be expected to simplify compliance activity.

**Improved amenity for residents of properties surrounding boarding houses and improved public perception of boarding houses**

Improvements for surrounding residents and changes in public perception will be relatively high compared to the other options as the higher standards will operate more immediately although there will be a greater loss of affordable accommodation in the assisted boarding house sector which can adversely affect communities.

**Maintaining the viability and sustainability of the boarding house sector**

The viability of the assisted boarding house sector is anticipated to be worst under this option because of the immediate shock it would cause for assisted boarding house operators. There are also no incentives for new operators to enter the industry under this option.
Consultation question on the assessment of options:

15. Based on the analysis, which is your preferred option? Why?

3.3 Analysis of viability if the draft Regulation is introduced

High level analysis of how the draft Regulation might affect the profitability of an existing assisted boarding house has been undertaken to help crystallise some of the impacts of the draft Regulation.

The analysis is not based on actual data but a range of assumptions to create a possible scenario. The scenario is based on a currently-operating assisted boarding house that is owned outright by the operator, and has capacity for 40 residents in 20 share rooms.

To capture the impact of some of the more significant changes it has been assumed:

- eight of the existing rooms can be reconfigured to two single rooms and the operator elects to do this over five years
- two lots of two residents elect to share rooms
- the total number of residents in five years time will be capped at 30 as required by the draft Regulation.

The analysis in Table 1 following compares the annual income and expenditure for the operation of the premises in year 6 (after the five year transition period ends).

The costs for option C do not include additional building costs that would be required to convert 8 existing rooms at the premises to single occupancy rooms. This is expected to create a cost of around $20,000 per original room with this cost to be incurred in the five years prior to the year analysed.

More detailed assumptions about income and expenses under each scenario are provided in Appendix B.
Table 1 Possible effect of Option C on an assisted boarding house in Year 6 (scenario assumes an assisted boarding house currently housing 40 residents in 20 share rooms)

<table>
<thead>
<tr>
<th>Annual Income and Expenditure</th>
<th>Base case</th>
<th>Option C Year 6</th>
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<tbody>
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<td></td>
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<td>Costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land tax</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Rates</td>
<td>$2,500</td>
<td>$2,500</td>
</tr>
<tr>
<td>Staffing</td>
<td>$280,273</td>
<td>$280,273</td>
</tr>
<tr>
<td>Fire compliance</td>
<td>$3,636</td>
<td>$3,636</td>
</tr>
<tr>
<td>Property insurance</td>
<td>$9,091</td>
<td>$6,818</td>
</tr>
<tr>
<td>Workers compensation</td>
<td>$6,364</td>
<td>$6,364</td>
</tr>
<tr>
<td>Electricity/water/gas</td>
<td>$22,727</td>
<td>$13,409</td>
</tr>
<tr>
<td>Vehicle</td>
<td>$9,091</td>
<td>$9,091</td>
</tr>
<tr>
<td>Food</td>
<td>$102,253</td>
<td>$78,840</td>
</tr>
<tr>
<td>Repairs, maintenance,</td>
<td>$45,455</td>
<td>$34,091</td>
</tr>
<tr>
<td>furniture replacement costs.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting / IT &amp; telephone</td>
<td>$4,455</td>
<td>$3,545</td>
</tr>
<tr>
<td>/ stationery and office supplies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special events e.g. Christmas</td>
<td>$3,636</td>
<td>$2,727</td>
</tr>
<tr>
<td>Total revenue</td>
<td>$638,352</td>
<td>$478,764</td>
</tr>
<tr>
<td>Total costs</td>
<td>$489,480</td>
<td>$441,295</td>
</tr>
<tr>
<td>Net income</td>
<td>$148,872</td>
<td>$37,469</td>
</tr>
<tr>
<td>Current value of property</td>
<td>$4,000,000</td>
<td>$4,000,000</td>
</tr>
<tr>
<td>Capitalisation rate</td>
<td>3.72%</td>
<td>0.94%</td>
</tr>
</tbody>
</table>

Simple profit and loss analysis shows that revenue exceeds expenses in both cases with net income of nearly $150,000 under the base case and approximately $37,000 under the draft Regulation (Option C).

This analysis does not consider the capital value of the property or growth in this capital value over time. Instead, a capitalisation rate has also been calculated as a measure of the performance of the capital investment. This is defined as follows:

\[
\text{Capitalisation rate} = \frac{\text{annual net operating income}}{\text{current capital value}}
\]

The value of the property is assumed to be $4 million. This is realistic for inner Sydney properties but is considered at the upper end of likely values of existing boarding houses with this capacity hence the results are considered conservative.
The result of 3.72 per cent for the base case indicates that around 3.7 per cent of the property’s value is paid for by the year’s net proceeds. It is appropriate to calculate the ratio based on the current value rather than original purchase value to account for the opportunity cost of keeping the owner’s money tied up in this investment. The result would be around 5 per cent if the property value was around $3 million.

The capitalisation rate for Option C is close to one per cent which many property owners would consider poor value from the capital investment despite the operation remaining profitable. Under this scenario, there is a greater likelihood the operator would either sell the property or switch to more profitable activity.

Consultation question on the analysis of financial viability:

16. Are the assumptions on revenue and expenses for assisted boarding houses reasonable (refer to Appendix B for more detail)? If not, what are more realistic estimates?

17. Are there particular challenges for smaller boarding houses not captured in this analysis? What are these?
Appendix A  Multi-criteria analysis

Multi-criteria analysis (MCA) was used to assess the relative costs and benefits of each option.

MCA establishes preferences between options by reference to an explicit set of objectives and measurable criteria to assess the extent to which the objectives have been achieved. The steps in the MCA analysis are described below and summarised in Figure 1. The analysis was informed by desk top research, consultations with a sample of stakeholders and analysis of the draft Regulation. The results are summarised in Figure 2.

Based on the objectives of government action listed in section 2, a set of criteria was identified for assessing each option. Three criteria were identified for each of objectives 1 to 3, and one criterion for objective 4.

The types of costs and benefits that would potentially result from implementing the Boarding Houses Regulation 2013 were identified. These were categorised by who would incur them (operators, residents, government or the community). The costs largely related to the assessment against objective 4 (sustainability of the sector). The benefits largely related to objectives 1 to 3.

Measures were established that could be used to determine the extent to which each option met each criterion either qualitatively or quantitatively. These included measures such as the number of residents affected, to what extent they would be affected, and when they would be affected.

Assumptions about changes to the boarding house industry that would occur under each option were made based on the incentives that each option is likely to create for boarding house operators i.e. if costs increase for operators relative to the base case, it was assumed this would accelerate the decline of the sector. This would occur relatively slower or faster depending on the option.

A score of between -5 and 5 was allocated to each criterion for each option based on how well it was likely to perform against the criterion relative to the status quo (option A), which was given a score of zero to provide a basis for comparison. These scores were based on a mix of qualitative and quantitative assessments against the measures which were made on a relative basis rather than an absolute number or amount as available information did not permit definitive quantification against most measures.

Weights were applied to the criteria. The scores for objectives 1 to 3 were given a combined weighting of 50 per cent and criterion 4, 50 per cent. This reflects that there is a natural tension between achieving objectives 1 to 3 while maintaining sustainability of the sector (objective 4) and that there should be balanced consideration of these. Option C, the draft Regulation, performed best in the analysis. It delivered the same amount of benefits as option D but at lower cost. However the net score for this option was zero because, while it delivers substantial benefits, these come at a cost that affect the sustainability of the sector.
and it is predicted the number of boarding houses, particularly for people with additional needs, would decline. Options B and D both had negative scores indicating that retaining the status quo would be preferable to these options. The benefits for option B are relatively small because the higher standards would only apply to new boarding houses and not many new operations are anticipated. The costs for option D are relatively high because the higher standards would apply to all existing operators immediately. Without time to adjust, this would result in a ‘shock’ to the sector and it is predicted more operators would elect to discontinue operating as an assisted boarding house if they did not have time to adjust to the higher standards relative to option C when a transition period would give them more capacity to make gradual modifications to their operations.

Sensitivity testing was undertaken by adjusting the weightings (refer to Figure 3). A 25 per cent weighting was applied to each objective. This resulted in options B, C, D all performing more strongly against the base case with each showing net benefits (as the costs had relatively lower influence). However, the relative rankings of options B, C and D did not change.
### Figure 1: Steps undertaken in multi-criteria analysis

<table>
<thead>
<tr>
<th>Define objectives</th>
<th>Identify the options</th>
<th>Identify assessment criteria</th>
<th>Scoring</th>
<th>Weighting</th>
<th>Combine scores</th>
<th>Examine the results</th>
<th>Sensitivity testing</th>
</tr>
</thead>
<tbody>
<tr>
<td>The objectives for government action in the sector were defined (outlined in section 2 of the RIS).</td>
<td>Options for meeting the objectives were identified. It was established at the start of the analysis that a non-regulatory option was not viable.</td>
<td>Types of costs and benefits that could potentially result from implementing the proposed regulation were identified. The stakeholder group these would affect was also identified (boarding house operators, residents, government and the community)</td>
<td>Measures were established for assessing each criterion. A score was allocated to each criterion for each option between -5 and 5 based on how well it was likely to meet the criterion relative to the status quo. The status quo or ‘base case’ was allocated a score of zero to allow comparisons against it.</td>
<td>Weightings were applied to the criteria. Objectives 1 to 3 had a total weight of 50% (largely representing benefits). Objective 4 had a weighting of 50% (largely representing costs)</td>
<td>The weighted scores were combined to determine an overall score.</td>
<td>The proposed regulation (Option C) had the highest score of all of the options. It delivers significantly more benefits than the status quo but at significant cost. The net result is equivalent to the base case score of zero because the benefits come at some cost to industry sustainability.</td>
<td>The results were sensitivity tested by adjusting the weightings so that each objective had a weight of 25%. The relative rankings of Options B, C and D did not change but with this weighting all of the options provided a net benefit relative to the base case.</td>
</tr>
</tbody>
</table>
## Figure 2 Results of Multi-Criteria analysis

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Objective 1: Reducing risks to boarding house residents</th>
<th>Objective 2: Simplifying the compliance task for councils and boarding house operators</th>
<th>Objective 3: Improving amenity for residents of properties surrounding boarding houses, and improving public perception of boarding houses</th>
<th>Objective 4: Maintaining the viability and sustainability of the boarding house sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing financial protection for residents</td>
<td>0</td>
<td>1</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Reducing risks to the health and/or safety of residents</td>
<td>0</td>
<td>1</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Improving living standards for residents of assisted boarding houses</td>
<td>0</td>
<td>1</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total Rating objectives 1-3 (Weighting 50%)</strong></td>
<td>0</td>
<td>8</td>
<td>27</td>
<td>27</td>
</tr>
<tr>
<td><strong>Total Rating all objectives (Weighting 50%)</strong></td>
<td>0</td>
<td>-1</td>
<td>0</td>
<td>-18</td>
</tr>
</tbody>
</table>
### Objective 1: Reducing risks to boarding house residents

<table>
<thead>
<tr>
<th>Objective</th>
<th>OPTION A</th>
<th>OPTION B</th>
<th>OPTION C</th>
<th>OPTION D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing financial protection for residents</td>
<td>0</td>
<td>1</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Increasing provisions for the health and safety of residents</td>
<td>0</td>
<td>1</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Improving living standards for residents</td>
<td>0</td>
<td>1</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

**Total Rating objective 1** (Weighting 25%)

<table>
<thead>
<tr>
<th>Criteria</th>
<th>OPTION A</th>
<th>OPTION B</th>
<th>OPTION C</th>
<th>OPTION D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving the ability of councils and FACS to access assisted boarding houses</td>
<td>0</td>
<td>1</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Improved enforcement of boarding house legislation both legally and in practice</td>
<td>0</td>
<td>0.5</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Improvements in information about the boarding house sector</td>
<td>0</td>
<td>1</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

**Total Rating objective 2** (Weighting 25%)

<table>
<thead>
<tr>
<th>Objective 2: Improving amenity for residents of properties surrounding boarding houses, and improving public perception of boarding houses</th>
<th>OPTION A</th>
<th>OPTION B</th>
<th>OPTION C</th>
<th>OPTION D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving living standards for residents of assisted boarding houses</td>
<td>0</td>
<td>1</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Establishing a maximum number of allowable residents in an assisted boarding house</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Improved enforcement of boarding house legislation both legally and in practice</td>
<td>0</td>
<td>0.5</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

**Total Rating objective 3** (Weighting 25%)

<table>
<thead>
<tr>
<th>Objective 4: Maintaining the viability and sustainability of the boarding house sector</th>
<th>OPTION A</th>
<th>OPTION B</th>
<th>OPTION C</th>
<th>OPTION D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased number of boarding houses operating under the legislation that provide low cost housing options and support reductions in homelessness</td>
<td>0</td>
<td>-1</td>
<td>-3</td>
<td>-5</td>
</tr>
</tbody>
</table>

**Total Rating objective 4** (Weighting 25%)

<table>
<thead>
<tr>
<th>Total Rating all objectives</th>
<th>OPTION A</th>
<th>OPTION B</th>
<th>OPTION C</th>
<th>OPTION D</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0</td>
<td>5</td>
<td>18</td>
<td>12</td>
</tr>
</tbody>
</table>

---

**Figure 3 Results of sensitivity testing**
Appendix B  Assumptions for analysis of viability

General assumptions for status quo:

- Premises currently has capacity for 40 residents in 20 shared bedrooms
- Residents pay GST and this is remitted to the ATO by operators as well as claimed by operators on relevant expenses

General assumptions for option C (proposed Regulation):

- Premises has capacity for 30 residents in 26 single occupancy rooms and 2 double occupancy rooms (if residents elect to share), or 28 residents in single occupancy bedrooms
- 8 double bedrooms are converted into 16 single occupancy bedrooms, resulting in a total number of 28 bedrooms
- 4 residents elect to share bedrooms.

Board and Lodgings – assumptions:

- Weekly payment of $341 exc. GST per resident, which is the maximum possible charge in order to remain exempt from land tax. This equates to 84% of the total of the disability support pension and full rental assistance.
- Average occupancy over a year = 90% of capacity.

Land tax – assumptions:

- Premises exempt from land tax.

Council rates – assumptions:

- Estimate based on publicly available data on Council rates
- No change between status quo and Regulation as no major change assumed to property.

Staff – assumptions:

- Number of Full time equivalent (FTE) staff estimated from available data on assisted boarding house industry.
- Cost of one FTE estimated as 52x average weekly earnings (AWE) of full time total earnings in the ‘health care and social assistance’ sector. (ABS Series ID A2723226V (AWE = $1283.30)
- No payroll tax as threshold not met
- Regulation is expected to:
  - reduce number of staff required pro rata to reduction in number of residents
require extra staff for increased administration costs and potentially to be assessed as having ‘sufficient’ staff levels under new Regulation

have the net result of approximately same staff level as base case.

Fire compliance – assumptions:

- Estimate based on schedule of rates from Council websites
- No change between status quo and Regulation as similar level of inspections likely to be required.

Property insurance – assumptions:

- Estimate based on commercially available data
- Under Regulation, pro rata cost reduction based on reduction in number of residents, due to decrease in risk to property.

Workers compensation – assumptions:

- Estimate based on commercially available data
- Under Regulation, pro rata cost increase based on increase in number of FTE.

Utilities Costs – assumptions:

- Estimate based on available data on the assisted boarding house industry and commercially available utility costs.
- Under Regulation, assumed to be partially reduced on a pro rata basis according to the reduction in the number of residents taking into account some fixed utility costs.

Food – assumptions:

- Cost per resident per day estimated at $8 (uncooked food/raw ingredients excluding staff costs for food preparation) based on estimates of food costs in other sectors
- Costs applied to residents at 90% average occupancy of total capacity over the year.

Repair, maintenance, furniture replacement costs – assumptions:

- Base estimate based on available data on the assisted boarding house industry
- Regulation is expected to reduce general maintenance costs on a pro rata basis to the reduction in number of residents.

Vehicle costs – assumptions:

- Estimate based on commercially available data, assume no change under Regulation.

Accounting / IT and telephone / stationery and office supplies – assumptions:
Estimate based on commercially available data, assume no change under Regulation given nature of small business accounting expenses and business ICT plans. Expect reduction in stationery costs pro rata to the reduction in number of residents.

Special events, e.g. Christmas – assumptions:

- Estimate based on limited data provide by the assisted boarding house industry
- Under Regulation it is expected there will be a reduction in costs pro rata to the reduction in number of residents.