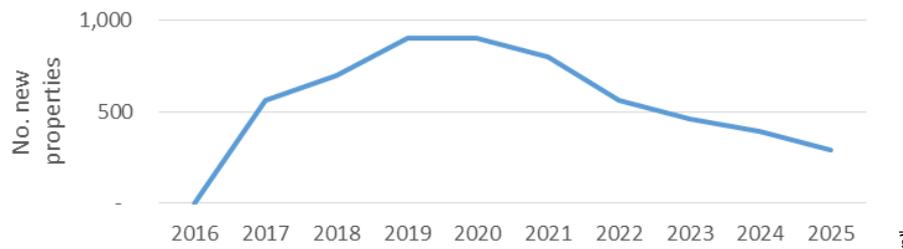


## Opinion Piece: How SDA Scheme is meant to Work

NDIA recognised that there was and still is a massive under supply of suitable, affordable housing for people with disabilities and that the cost of buying land and construction buildings varies significantly with location and type and category of dwelling.

The Position Paper published by NDIA in April 2016 assumed that by 2019 there would be about 2,200 New SDA dwellings and over 3,000 by 2020.

FIGURE 1 - ASSUMED SUPPLY OF SDA (NEW BUILDINGS)



The note under Figure 2 in the Position Paper stated that *“the price for new housing is set to provide an incentive to a broad range of potential investors to respond quickly in constructing new properties to provide for unmet SDA demand”*.

### Limited Review of SDA Pricing Framework

It is recognised that new SDA is not coming on-line as quickly as hoped. The Limited Review seeks to identify ways to improve the Framework.

The core principles of the NDIS is that participants should have **Choice and Control** within the bounds of **Reasonable and Necessary**. It is not reasonable or necessary for participants to live in waterside mansions but they should be able to live in housing that caters for their needs in reasonable proximity to where they work or attend community participation programs with reasonable access to their family and friends as well as community and recreational activities.

SDA dwellings cost more to build and are likely to have a lower resale value than normal residential dwellings. Further, SDA sets maximum rent at the Reasonable Rent Contribution (RRC) which in most cases is below market rent.

To incentivise potential investors and providers, the Scheme provides for SDA payments to supplement the RRC. The SDA Pricing Framework sets out the amounts of SDA payments for each building type and design category in each location.

Part of the SDA payment is to cover the difference between RRC and market rent. For a house for 3 residents in Chatswood, annual market rent is about \$50,000 versus RRC \$27,937.65. The rest of the SDA payment is to give providers a reasonable return for investing in dwellings that cost more to construct and maintain and are likely to have less

resale value that typical residential accommodation. There is also a component to provide for the likelihood that the cost of vacancy risk being higher than in typical rented properties.

SDA payments plus RRC for a robust house for 3 residents in Chatswood would give the SDA Provider annual income of \$154,409 which is more than 3 times market rent.

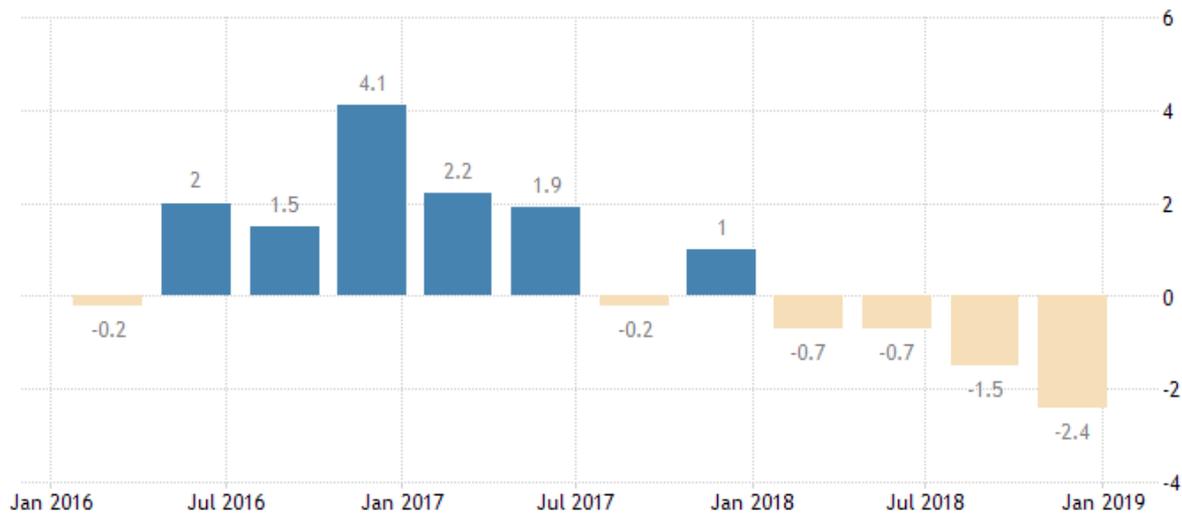
## SDA Pricing Assumptions

**TABLE 4 - KEY ASSUMPTIONS FOR BENCHMARK PRICING**

DESCRIPTION	RANGE	SOURCE OR RATIONALE
<b>General</b>		
Investment horizon	20 years	Consultation with investors and financiers
<b>Rental contributions from participant</b>		
Annual rental contribution/participant	\$8,554	25 per cent Disability Support Pension + Commonwealth Rent Assistance (lower without CRA). Defined by framework.
Growth in rental contribution	CPI	assumption.
Vacancy rates – group homes	3%-10%	Historic data indicates 3-7 per cent. Assume higher in group homes when choice available.
Vacancy rates – smaller forms	3-7%	Public housing vacancy rates around 3 per cent. Assume slightly higher when the dwelling is not a single occupancy.
<b>General market information</b>		
Median land values	Varies by area Base \$552/sqm	State land agencies, aggregated to ABS statistical division. Base = median price combined capital cities.
Long term land appreciation	5% p.a.	Literature and State data indicates long term averages from 5-10 per cent or more. Assume low end due to high current property values.
Increase in building costs	CPI	ABS housing cost index similar to CPI over long term.
Gross market yield for existing stock	5.5% - 6.5%	Proportion of total property value. Based on RBA estimate of standard yield (4.2 per cent) plus 1-1.5 per cent additional cost for SDA based on review of State data. +1 per cent for apartments.
<b>Cost of ownership</b>		
Maintenance and outgoings	\$15,000- \$34,000	Depends on property type. Based on review of State data. Significantly higher than general (non-SDA) industry benchmarks.
Property management	0.4%	Proportion of total property value. From RBA analysis. Equivalent to industry benchmarks of 8-10 per cent of rental value.
Vacancy management	\$4,000	Per vacancy. Equivalent to one FTE plus overheads for one month.
<b>Property costs</b>		
Build costs	\$0.4 - \$1.6m	Varies by build type and design category. Advice from quantity surveyors with architectural design advice.
Additional breakout or staff rooms	\$30,000- \$40,000	As above.
Major refurbishments	20-25 years	Consultation advice.
Major refurbishments costs	\$40,000- \$80,000	Consultation advice.
Asset life of building	60 years	Consultation advice. Assumes property is well maintained and regularly refurbished.
Loss on building costs when sold	20% - 40%	Assumption. Loss of building value on sale because building is designed as SDA. Higher end represents loss on group homes. Homes with higher specifications than platinum are treated in accordance with platinum homes.
Fees on sale of property	7.3%	Transaction fees, stamp duty, etc. Industry average estimated by RBA.
<b>Financing</b>		
Debt rate	5.2%	Ten year Commonwealth Bond rate plus 2.5 per cent debt margin.
Equity rate (nominal after tax)	8.1%	CAPM, based on comparison with aged care and other health care investments.
Level of debt	60%	Comparison with financing assumptions applied in the aged care sector and other regulated industries.

The assumed construction cost of a robust house for 3 residents was \$917,700.

The assumption that land prices will rise by 5% pa on average over long periods is probably reasonable. However, in the short term, land prices are typically volatile. The chart below shows quarterly percentage changes in the median Australian House Price Index. The annual increase/decrease is approximately the sum of 4 consecutive quarters. In the year to July 2017, house prices rose by 9.7% and in the year to January 2019 they fell by 5.3%.



SOURCE: TRADINGECONOMICS.COM | AUSTRALIAN BUREAU OF STATISTICS

If land prices rise faster than expected, providers that have already purchased the land will enjoy a higher return than assumed in the Pricing Framework if they sell the property to realise their capital gain and those that have not already purchased land will find that the SDA pricing will not be sufficient to fund their cash flow cost if they have to borrow to purchase the land for more than was assumed when SDA Pricing Framework was set.

From the point of view of getting potential providers to build new SDA, it has been fortuitous that house prices have fallen over the past year or so and that interest rates have fallen at the same time.

It is reasonable to expect that if land prices rise sharply, the supply of new SDA will dry up. If so, the rigidity of the next pricing review being in 2023, could mean the scheme will fail to deliver as hoped.

**Location factors** reflect differences in median property prices. They are based on SA4 but there is an argument that they should be based on SA3 because property prices can vary markedly within a SA4. For example, Northern Sydney extends from North Sydney to Hornsby. Median prices vary substantially within that area.

Median Property Prices		31/03/2019	
Suburb	House	Unit	
Hornsby	\$1,100,000	\$650,000	
Waroonga	\$1,836,000	\$782,000	
Lane Cove	\$1,870,000	\$810,000	
North Sydney	\$1,900,000	\$1,020,000	
Turrumurra	\$1,925,000	\$860,500	
Gordon	\$2,210,000	\$938,000	
Chatswood	\$2,272,500	\$1,040,000	
Killara	\$2,541,500	\$935,000	
Hunters Hill	\$2,670,000	\$1,200,000	
Roseville	\$2,875,000	\$1,000,000	

If the same location factor (e.g. 1.36 for a house for 3 residents) applies across SA4 Northern Sydney, then providers will be inclined to build SDA in Hornsby but not in other suburbs.

Relative property prices change continually. However, provided location factors are reasonable, adjusting location factors in the 5-yearly review should be sufficient.

SDA Pricing Framework provides for varying payments for different design types. These reflect the incremental construction and likely modification costs for each design category.

SILC’s participants typically are on the autism spectrum and have intellectual disabilities and so robust is the relevant design category. We believe that robust is the category most requiring attention for the SDA scheme to satisfy its objective.

Appendix O of the Disability Reform Council Quarterly Report provides extensive data on the Supply of different Design Categories in each location. The extract below shows:

**Table O.4 Number of Enrolled SDA Dwellings by Location and Design as at 31 March 2019 (excluding in-kind arrangements)<sup>339</sup>**

Location	SDA Design Category					Total
	Basic	Improved Liveability	High Physical Support	Robust	Fully Accessible	
<b>Total</b>	<b>1,499</b>	<b>630</b>	<b>247</b>	<b>119</b>	<b>401</b>	<b>2,896</b>
<b>NSW</b>	<b>807</b>	<b>209</b>	<b>63</b>	<b>45</b>	<b>132</b>	<b>1,256</b>
NSW Sydney Baulkham Hills and Hawkesbury	24	11			14	49
NSW Sydney Blacktown	49	2	2	1	15	69
NSW Sydney City and Inner South	15	1		2		18
NSW Sydney Eastern Suburbs	16		1	1		18
NSW Sydney Inner South West	50	3	1		2	56
NSW Sydney Inner West	16		1	1		18
NSW Sydney North Sydney and Hornsby	53	12	6			71
NSW Sydney Northern Beaches	27	1			5	33
NSW Sydney Outer South West	16	4	4	1	2	27
NSW Sydney Outer West and Blue Mountains	49	14		7	8	78
NSW Sydney Parramatta	49	29	6	1	15	100
NSW Sydney Ryde	28	4		2	31	65
NSW Sydney South West	14	8	1		1	24
NSW Sydney Sutherland	44	20				64

As at 31 March 2019, there were 277,155 NDIS participants of 460,000 assumed at full roll out of the Scheme. 12,356 participants (4.4%) had SDA in their Plans (28,000 (6.0%) assumed on full roll out). Only 2,896 properties were enrolled. 1,496 of these were “basic” (not new) and 1,397 were New. Of these only 119 were robust and of those only 9 were in Sydney. Clearly, the objective for a quick response has not been met especially for some design categories in some locations.

No data is available on **Demand** (Need) for SDA by design category or building type.

It is likely that providers have been building apartments for fully accessible and improved liveability in locations where land is relatively less expensive but not building houses for robust in areas where land is relatively expensive.

Data needs to be made available on **Demand** for SDA by Design Category and Location (and ideally building type).

Potential providers need to know where demand exceeds supply so they build where needed and where supply exceeds demand so they don't build dwellings that are not needed.

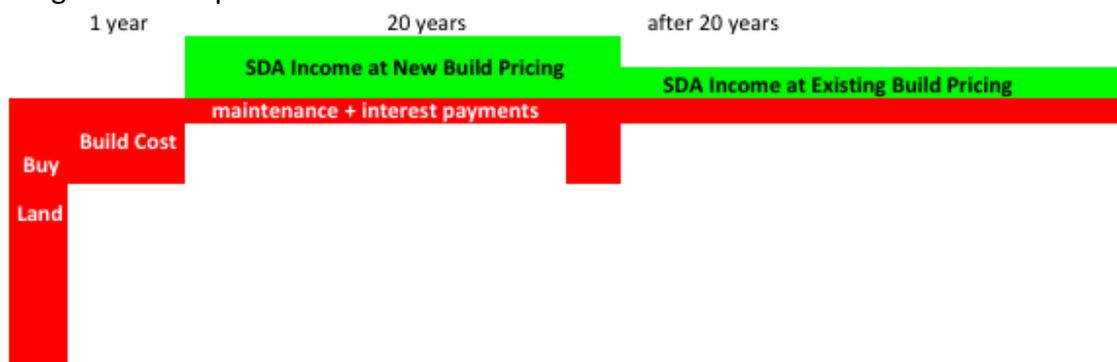
NDIA has a substantial list of IT projects and so publishing data on Demand for SDA is currently scheduled under the Data Release Plan for December 2020.

Prior to NDIS, there was a massive shortage (supply < demand) of all building types and design categories in all locations. Over time, the shortage of building types and design categories will be greater in some locations than in others. Potentially, there could be over supply (supply > demand) of certain building types or design categories in some locations.

If, for example, there is a substantial shortage of robust houses for 3 people in Ryde, the SDA pricing for this type x category x location should be **increased** to attract more construction to achieve equilibrium between supply and demand. On the other hand, if more 2 bedroom fully accessible apartments have been built in Blacktown than are needed, the SDA pricing should possibly be **reduced** to avoid investors and builders adding to the over-supply.

The SDA Provider commences receiving SDA and rent equal to Reasonable Rent Contribution on an annual basis only after the participants take up residence. SDA payments are being indexed by CPI each year from 1 July. Indexation is relevant for maintenance costs and possibly for interest costs if funding is on a variable basis. However, the vast majority of cost associated with purchasing the property and building the dwelling are locked in before the SDA provider starts receiving income.

A very high proportion of total cost is incurred upfront. The purchase of land and the building costs are upfront "fixed" costs.



For completed projects, there is no need for the SDA provider to receive larger SDA payments for the location factor because property prices in the area have risen after the

time the property was purchased. The “variable” costs are for refurbishments, repairs and maintenance and interest (assuming funding is variable). The SDA pricing that applied at the time the land was purchased and the building constructed should be **grandfathered** for the fixed cost component but **indexed** annually over life for the variable cost component.

SDA payments for **future** projects should vary with supply and demand for the type, category and location until the project becomes committed. If not, providers may be incentivised to build stock of a type and category in locations where there is no demand and not to build where there is need.

Grandfathering should apply to enrolled property not the participants. If a participant moves to a different SDA property or a new participant moves into an existing SDA property, SDA payments should align with the property not the participant.

#### Vacancy Risk

60 days is not sufficient time for providers to properly cover vacancy risk This issue is likely to be left until the 2023 review. However, the time between now and then is critical for investment in new SDA. A temporary extension of the vacancy risk time period could be introduced to help clear the backlog. Any temporary arrangements that are made should be very clearly spelt out to investors (the grandfathering argument). It should be explained as a short-term bonus rather than as a long-term penalty.

#### Minimum Design Standards and Optional Design Guidelines

The component of SDA payments that exceeds the difference between market rent and RRC, compensates the provider for additional costs associated with complying with design requirements as well as the extent that resale value of the SDA property may be less than it would be for a similar “market” property.

There was a common view that the Design Guidelines (version 1) are too prescriptive and will result in SDA dwellings being hospital-like “institutions” rather than homes for the participants. Many elements will add substantial costs but will only be necessary in a small number of cases.

The question was asked whether they were intended as “guidelines” or **minimum requirements**. Andrew Whitecross pointed out that as the certifier will need to declare that the dwelling complies for the SDA payments to occur, they are in effect minimum requirements not guidelines.

The view emerged that the document should be separated into (1) Minimum Standards that cover fixed core features and (2) Design Guidelines that provide variable options that suit the resident participants.

SDA certifiers should be required to certify that the dwelling meets the minimum standards and that the variable options suit the needs of the particular residents.

Providers should be required to provide features that suit the needs of resident participants as determined by the participant’s Occupational Therapist. They should be permitted to

build without elements that are not needed for their residents provided they are willing to incur the cost of making modifications that are needed for future residents. Examples include types of taps, grab rails etc.

Presumably, providers will allow for modifications that would be structural and expensive to do at a later time in the original design. For example, door sizes, room dimensions and widths of corridors add a small additional cost at time of construction but would add a lot if done later. If a lift may be required in future, it might be prudent to allow space for it in the original construction and use it as a storage cupboard until or if it becomes necessary. Many participants are transported in vans so parking spaces and minimum heights of garages should cater for this.

Providers can choose between spending more on the initial build so that it will cost less to make modifications if they are needed for participants in future or to spend less on the initial build and be prepared to pay more for future modifications if or when they are required for a participant.

The minimum design standards may require some features that are not required for some participants. For example, a participant requiring robust may not need accessibility. However, the standards may require accessibility features in case they need them in future or so the employees and visitors can use the dwelling. It is not likely to adversely affect other participants if switches and power points are less than 1 metre from floor level to cater for people in wheelchairs.

Good design allows flexibility for creative solutions. Being too prescriptive will stifle good design. Clever design should be encouraged to provide better solutions that merely adhering to constraints that may not be necessary. Electronic keys may enable the fully accessible participant to lock and unlock doors independently but give the support workers the ability to lock doors if necessary for the safety of a participant requiring robust.

The needs of participants requiring robust can be the opposite of those requiring fully accessible. Features such as hand rails and grab rails may, in practice, conflict with the goals of participants that frequently aspire to greater independence. People in wheelchairs require low windows but some people needing robust may need high windows.

Clever design for a home that may need to cater for both types of residents, could involve windows from 1 metre above floor level to say 2.5 metres above floor level with robust cover that can be moved up for fully accessible or down for robust.

Some elements in the current Design Guidelines should be removed as costly but unnecessary:

- (i) The requirement for the slope of the property to be less than 1:14 from the front fence to the building is unnecessary. Typically, the participant or their support worker will drive them to the parking space adjacent to the building. So, it won't matter if there is a steep driveway provided the site is accessible from where the participant gets out of and into the car.

- (ii) Installing emergency power systems will add about \$30,000 to cost but may not be necessary.

The minimum standards should state the **principles** not just hard and fast rules. For example, the point of having maximum slopes and hand rails, is that people in wheelchairs can have easy access and people who are ambulant but require something to hold to be comfortable walking are able to do so. The principle is that people with limited mobility should be able to comfortably and safely access areas. Certifiers should be given discretion to approve designs that achieve the principle without the use of hand rails (say). Grab rails serve the purpose of enabling some people to get into or out of a bath or bed. Certifiers should be given discretion to approve designs that achieve the principle without the use of grab rails (say).

Robust means different things to different participants. These include:

- Use of materials and fittings to minimise “reactive maintenance”
  - walls, windows, doors, handles, drawers, plumbing etc.
- Noise abatement
  - walls, glazing, soft close doors, fence heights, set back from boundaries and neighbouring buildings, vegetation including hedges
- Spatial considerations to minimise risk of harm to staff, other residents and visitors
  - Wide corridors and doorways, second exits from rooms, alternative routes to get from one part of house to another
- Devices and structures to safely minimise risk of absconding
  - Lockable doors, windows and gates
- Devices to maximise safety of participants
  - Maximum water temperatures, limiting use of gas appliances, locking to deny access to cooking appliances

Some robust elements should be included in mandatory minimum standards:

- Water Temperature controls e.g. could set water temperature to avoid resident having either too hot/cold shower

Many participants requiring robust do not need many of the above. They should be options in Design Guidelines rather than mandatory Minimum Standards.

Design Guidelines should include guidance on:

- recommended materials for wall surfaces and types and thickness of glass, protective covering for windows, TV etc. soft close doors and drawers, handles, railings, taps
- alternatives to achieve noise abatement and risk minimisation
- example of design and elements of break-out room

Unless one or more residents of the dwelling require the kitchen to be locked, the certifier should have discretion to approve designs without a lockable kitchen. Even if one or more participants needs a lockable kitchen, a workable alternative could be an open plan kitchen with a lockable pantry or a lockable roller that limits access to the stove.

Examples of elements to consider in relation to robust design:

- Bathroom/House Layout needs to be conducive for someone who is prone to having seizures
- Fixed amenities favourable for residents likely to try to throw objects/furniture i.e. sturdy toilet seat, fixed television set, bathroom systems – top of the toilet to be fixed so plumbing cannot be accessed by residents, toilet roll dispenser so resident doesn't put full roll in toilet
- Lockable doors to the kitchen/pantry
- Magnetised/Alarmed/Sensor detecting doors
- Consider the location for light switches i.e. above height level
- Wi-Fi – ensure access is enabled throughout the house even if a wi-fi modem is disconnected/thrown by a resident
- Consider padding in the bathroom to enable participant to independently attend to personal care/shower without hurting themselves if behaviours occur. Padding would need to be waterproof
- Consider having flooring so that spills on carpet are avoided
- Sensor lights in bathroom for someone who is prone to waking in the night
- Steps throughout house – consider increasing height and width to enable residents to have safer footing on steps

Good design can also minimise the loss on resale of the property from having to modify it back to “normal”. Buyers will not usually pay less for a property because it has large rooms and wide doorways and corridors. They will normally accept gradually sloping ramps and they won't discount the value of the building because switches and power points are lower than “normal”. The less institutional the home looks, the less modifications will be required to sell it on the open market.

Steve Anthony  
20 June 2019