



Submission - SDA Pricing & Payment Framework Review

The following submission is to KPMG for the SDA Pricing & Framework Review from Ilowra Projects. Ilowra Projects develop customised Specialist Disability Accommodation (**SDA**) for residents with a disability. Ilowra Projects take a client centric approach, starting with the participant who is SDA funded first and then designing a new home to specifically meet their needs. We provide a development management service so that where possible SDA dwellings can be developed and owned by NDIS participants or their families. Where families don't have the means to own their own project then Ilowra Projects has a network of investors interesting in considering an investment.

Ilowra Projects believe the creation of the SDA framework to stimulate private investment in the development of disability housing is a significant and positive initiative that will ultimately result in the creation of much needed specialist housing. There are positive aspects to the SDA Pricing Framework that Ilowra believe will assist in developing a new dynamic market in disability housing including the linking funding to individuals rather than the dwelling and the creation of minimum design guidelines. There are unfortunately however challenges with the SDA Framework and inter-related processes and governance mechanisms that are curtailing the development of new SDA housing stock and these are explored below. Inter-related processes include the SDA Planning Process for assessment of SDA eligibility, Supported Independent Living (SIL) support determination process and governance mechanisms for development such as the role of the National Construction Code (NCC).

The issues identified below are in point form. They provide specific information on the issue, theme (linked to the SDA Framework Review Discussion Paper), an example of the issue and a suggested solution. Issues below include those that relate to policy and others that relate to implementation of the policy. Some of the issues below may be considered out of scope of the SDA Pricing & Payment Framework Review however for completeness we believe these issues need to be raised as they directly affect the development a new market for SDA housing. The issues below are in no order of importance.

- 1. Issue** - Developing New Build SDA customised for participants (not speculative developments) requires SDA in plans before a project can commence. SDA for New Builds isn't being granted in plans.

Theme - Investment

Detail - Ilowra Projects start projects with the participant who will live in the dwelling and then design to meet their needs. With most projects the participant or their family will own the new home. Ilowra Projects have numerous projects in the pipeline but cannot commence development as the participants who the development is for are not able to obtain a determination as to whether they are eligible for SDA. These participants have all spent considerable time developing Housing Plans that are now submitted and awaiting a response from the NDIA. Incorrect messages are also coming from some NDIS Planners that SDA cannot be considered until a dwelling is built, enrolled and an offer for residency has been made.

Example - September 2016 participant set goal to live independently. September 2017 advised eligible for SDA. April 2018 advised not eligible. AAT application now in progress.

Suggested solution - Review and resolve issues with the SDA planning process to assess eligibility so that projects can commence.



2. **Issue** - Location Factor is difficult to identify for a specific street address and too large to reflect a common land cost.

Theme - Pricing & Payment

Detail - The Location Factor linked to ABS SA4 is hard to identify. The only method we have found to identify SA4 for a specific street address is to use a crude ABS mapping tool. As SA4 covers such a large area land costs vary significantly within a single region.

Example - Example of issue – Location Factor for Melbourne South East. Glen Waverly 3150. Average House Price \$1,337,500 and Lang Lang \$425,000. Both have the same SDA Location Factor.

Suggested solution - Create smaller areas for Location Factor that more accurately reflect a similar land cost and that can be easily determined.

3. **Issue** - Lack of clarity on whether furniture (if requested by residents) should be provided by SDA or SIL provider.

Theme - Choice & Control

Detail - If furniture is provided by SIL then it may make it more difficult for the participant to exercise choice in changing SIL providers. They may be concerned they have to change all their furniture if they choose a new SIL provider. Due to lack of guidance there is the potential for inappropriate charging for furniture (from board payments) by SDA provider without clear guidelines as to the maximum percentage of DSP appropriate for furniture.

Example - Perceived issue as no projects completed yet.

Suggested solution - If required furniture should be provided by SDA provider to ensure ease of choice by participant to change SIL.

4. **Issue** - Criteria for Innovation payment assessment in framework is unclear.

Theme - Pricing & Payments

Detail - The term Innovation is used regularly but not clearly defined and could mislead investment decisions. There is no clarity of what is the assessment criteria for innovation. It appears to be a subjective decision as to whether a project is innovative and it is unknown who makes a decision of Innovation within the NDIA.

Example - Informal discussion with a prospective SDA provider suggested they will be developing an innovative solution that they feel sure they will be paid more for by the NDIA

Suggested solution - Remove Innovation payments from framework unless it can be clearly articulated as to the eligibility criteria, the process for assessment and amount that could be paid for Innovation.



5. Issue - Inability to enrol a single dwelling for multiple SDA Design Categories.

Theme - Investment

Detail - It is possible to design a dwelling to meet multiple SDA Design Categories however it cannot currently be enrolled as such. This limits the options available to tenant the property and received the appropriate SDA payments, increasing the risk to the investor.

Example - A dwelling can be designed to meet both Robust and High Physical Support design categories however it cannot be enrolled in both and as a result you could not have a participant who is SDA funded for High Physical Support and another who is funded for Robust living and funded in the same dwelling.

Suggested solution - If compliant, allow the enrolment of a dwelling against multiple SDA design categories.

6. Issue - Lack of clarity on the specific design elements and building materials required to satisfy each of the SDA Design Categories.

Theme - Pricing & Payments, Investment, Innovation & Quality

Detail - Specifications detail used in the SDA Position Paper 2016 (section 1.4) was not included in the SDA Price Guide. This detail was used in the cost estimation to determine Base Prices but as it isn't included in the Price Guide it can be omitted from being used in the design of dwellings. It is highly likely dwellings will be designed to a lesser specification level than was originally intended and still be deemed SDA compliant.

Example - Illowra Projects have had great difficulty in determining the best building materials to use to meet the requirements expected for a Robust dwelling.

Suggested solution - Provide significantly more detail on the requirements for design of each of the SDA Design Categories to ensure a minimum standard is met. Create a compliance process to ensure these design elements and building materials are used correctly.

7. Issue - Lack of clarity on the requirement of Assistive Technology (AT) Ready and the possibility of additional costs for investors to provide AT in the future.

Theme - Investment

Detail - The lack of clarity of what is required in a dwelling for AT is resulting in nervousness by investors and financial institutions. A fear exists that there could be significant additional cost required of the SDA Provider if the participant who moves into a dwelling is not funded for unique and costly AT. The NDIA has also made it clear that Home Modification will not be provided for SDA dwellings. Planners have also been quoted as stating that only AT that is transportable and not a part of the dwelling will be funded in a plan and that dwelling AT is the responsibility of the SDA provider.



Example - A recent discussion with a financial institution by Illowra Projects identified the concern of the institution that a developer may require significantly additional funds to complete a project if the resident required additional and costly AT that the NDIA may refuse to fund and the SDA Provider would be obliged to provide in order to secure the tenancy. A specific example of the uncertainty is that the SDA Provider must provide a ceiling suitable for the installation of ceiling hoists for the High Physical Support design category. Who funds a ceiling hoist track (which can be substantial for a dwelling and in excess of \$10,000) is not clear. A ceiling hoist track is not transportable.

Suggested solution - Provide clarity of specifically what AT is funded by the NDIS in participant plans and what is expected to be funded by the dwelling owner.

8. **Issue** - Quantity Survey (QS) work undertaken to estimate Construction Costs of the various SDA design categories and dwelling types has an unclear methodology and is of questionable accuracy.

Theme - Pricing & Payments

Detail - The detailed calculations used to determine the construction costs which subsequently go into setting the SDA Base Price are not available to review. Some data is presented on the construction costs and their method of calculation in the April 2016 SDA Position Paper however these are significantly different to costs modelled by Illowra Projects.

Example - Estimate for construction cost for High Physical Support Apartments appears overstated compared to Fully Accessible. On page 57 of the SDA Position Paper a 2 bedroom Fully Accessible apartment is estimated at \$632,800 and 2 bedroom High Physical Support apartment is estimated at \$973,000 which demonstrates an inconsistency. An increase of \$340,200 or 50% for an apartment that is the same size (both map to LHA design category Platinum) with a small number of extra features. In this document it describes the only difference being *'It is assumed that the building specification will be the same as for Fully Accessible but also with strengthened ceilings and floors to support hoists; and Remote control blinds and lights.'*

Suggested solution - Urgently review all QS construction cost estimates used in the setting of Base Prices and then update the current SDA Base Prices. Utilise the services of multiple QS's to determine cost of construction and check with an experienced panel of SDA developers.

9. **Issue** - Link between the SDA Planning Process (participant design requirements for housing) and SDA Design Categories and configurations isn't clear or doesn't exist. This poses a significant risk to investors that a combination of dwelling type, design category and configuration (# participants) could be built that is not in demand as it isn't funded in participant plans.

Theme - Investment

Detail - The SDA planning process appears to have no assessment elements that directly link to the SDA Design Categories. It appears the SDA Design Categories have been created in isolation of the SDA Planning Process and it is unclear if there is likely to



be participants funded for each of the thousands of combinations of dwelling type, configuration and SDA design category that are possible. Allied Health professionals writing housing reports and obliged to specify an SDA Design Category however there is no clear guidance on the functional impairments that require a specific response for Improved Livability, Fully Accessible, Robust or High Physical Support design categories.

Example - Illohra Projects are aware of numerous Allied Health professionals and Support Co-ordinators writing Housing Plans who do not know which SDA Design Category to recommend for a participant.

Suggested solution - Provide a clear set of assessment criteria against which each of the SDA Design Categories can be recommended by Allied Health professionals. Provide market demand data to the sector to facilitate the determination of which SDA Design Categories will be funded in plans.

- 10. Issue** - Assumptions on land cost used in the setting of base prices and location factors is too low making Houses and Townhouses/Villas financially unviable projects in Melbourne's inner and middle suburbs.

Theme - Price & Payments

Detail - Land cost appears to be significantly underestimated in Melbourne making dwelling types for Group Homes, Houses and Townhouses/Villas unviable in inner and middle suburbs based on current base prices. It is unclear if Location Factors are supposed to account for land price differences however from reviewing the SDA Position Paper on page 58 it appears they do not. It appears that in the SDA Position Paper Pages 20 & 21 the assumption of Base Land Price was \$552m² for all locations. This significantly less than the price per m² of land in Melbourne inner and middle suburbs.

Example - Land prices in Vermont in Melbourne are approximately \$1,000m², Blackburn \$1,500m², Watsonia \$1,000m². Significantly above the \$552m² used.

Suggested solution - Review methodology for estimating and using land cost in setting SDA Base Prices.

- 11. Issue** - Lack of clarity on the assumed National Construction Code (NCC) Building Class for houses and townhouses/villa's used in the cost of construction.

Theme - Pricing & Payments

Detail - It is unclear if the methodology used for the cost of construction of houses and townhouses/villas are based on NCC Class 1a, 1b or 3 dwellings. A Class 3 dwellings (which is a requirement for 2 or more residents with a disability) is significantly more expensive to construct than a standard residential 1a dwelling. Cost of construction of houses and townhouses appears too low.

Example - No background is provided in the SDA Price Guide on the methodology to determine Base Prices. The SDA Position Paper 2016 only provides limited data on the methodology on cost of construction.

Suggested solution - Publish assumed dwelling classifications used in the construction cost assumptions.



12. Issue - There is a higher cost of land for houses and townhouses/villa's in Victoria due to new planning laws for garden space requirements.

Theme - Pricing & Payments

Detail - New planning requirements introduced in Victoria in March 2017 for larger garden spaces within a development have significantly increased the cost of development due to more land being required for garden space on a development site. This extra cost of land in Victoria doesn't appear to be allowed for within the SDA Base Price calculations. There is now a requirement for over 35% garden space for developments over 650m². Most SDA developments of houses and townhouses/villas will require over 650m² of land.

Example - A typical small development in Victoria of two town houses for two residents in each would require an 800m² site, depending on orientation and site constraints.

Suggested solution - Adjust base prices for houses and townhouses/villas in Victoria to accomodation higher land cost due to this new garden space requirement.

13. Issue - National Construction Code (**NCC**) requirements for SDA dwellings are unclear and open for interpretation.

Theme - Investment

Detail - Although not a part of the SDA Framework the lack of clarity within the NCC for SDA style developments significantly increases risk to investors of making an error. The lack of clarity could lead to developments of the incorrect dwelling class that could put participants and carers at risk, particularly from fire.

Example - A builder with lack of knowledge of SDA considered a house with three residents with a disability to be a Class 1a instead of a class 3. A Class 1a dwelling is an ordinary residential dwelling with limited fire protection considerations.

Suggested solution - Work with Australian Building Code Board (ABCB) to provide greater clarity to the dwelling class requirements for SDA in the NCC. Specifically define SDA in the NCC.

14. Issue - Construction cost modelling in the 2016 SDA Position Paper appears to assume that houses and townhouses/villa's will be smaller than is realistic and that residents will share a bathroom, thus understating the cost.

Theme - Pricing & Payments

Detail - The dwelling sizes in m² modelled in the 2016 SDA Position Paper generally appear too small for houses and townhouses/villas thus understating the cost of construction and cost of land. On page of 49 of the SDA Position Paper the suggestion is that residents will share a bathroom in all houses and townhouses/villas. Our research has shown this isn't the design of choice and participants would prefer their own bathroom.



Example - Typical designs for a two resident dwelling with OOA to comply with SDA Robust and NCC Class 3 requirements are around 200m². This includes bathrooms for both residents. In the SDA Position Paper the size of the same dwelling is suggested to be 125m².

Suggested solution - Review the estimated sizes of dwellings and include bathrooms for each resident. Update the SDA base prices following this review of construction costs.

15. Issue - Supply and Demand data not available

Theme - Supply & Investment

Detail - The lack of data on SDA dwellings completed and lack of data on dwellings being planned or under construction significantly increases investment risk. There is a risk that an area may be overdeveloped with SDA and other may be neglected.

Example - Illowra Projects regularly discuss investing in SDA with families and are often asked for information on 'what else is being developed in the area?' so that families can assess the investment risk. We are unable to provide this data to investors.

Suggested solution - Publish data on SDA which is being approved in participant plans for New Builds. Create a pre-enrolment process and publish data on pre-enrolled and completed developments by dwelling type & configuration and SDA design category by location

16. Issue - Supported Independent Living (SIL) support interface with SDA planning process and SDA framework is unclear.

Theme - Choice & Control & Investment

Detail - Lack of information on how SIL decisions interface with the SDA planning process create uncertainty for participants and investors. This lack of clarity affects investment and development decisions on the configuration of dwellings, the number of bedrooms. It is unclear if the choice of whether to live alone or with others is the participants & families, allied health professionals, developers or the NDIA. The recent SDA Investor Brief cast even greater uncertainty on this question suggesting the decision would be that of the NDIA. Investors have reacted to this uncertainty by reconsidering their investment in SDA.

Example - Families planning to invest in SDA using Illowra Projects to manage the development are uncertain how many other residents their children will need to share with.

Suggested solution - Provide clarity on where the decision on shared SIL supports sits within the SDA planning process. Provide clarity on whether any dwelling types or configurations will not be funded in participant plans.



17. Issue - SDA Pricing Review timeframes too short and discouraging investment

Theme - Investment

Detail - The lack of certainty of SDA pricing levels continuing after the 2021 price review is inhibiting private investment in the sector.

Example - A prospective not-for-profit investor in regional Victoria who was initially keen to undertake a development abandoned their project when they identified that pricing could change significantly in 2021 as a result of the SDA Price Review.

Suggested solution - Provide more certainty to investors that the SDA payments will not be reduced during the 2021 price reviews. Provide certainty of a 10year time frame for SDA payments.

18. Issue - Financial sector nervousness in lending to SDA projects and conservative project valuation methods (well below the cost of construction) is stifling sector growth.

Theme - Investment

Detail - Due to the issues identified above financial institutions are reluctant to lend to SDA projects. Banks are explaining valuers are valuing projects based on like for like residential and this is much less than the cost of construction of an SDA dwelling. The few institutions that are lending are being extremely risk adverse and requiring a significantly higher equity contribution. This is making it significantly less attractive for investors looking to best leverage their equity across multiple projects and significantly harder for families looking to invest in SDA as they need to contribute significantly more equity.

Example - One of our pipeline projects will most likely only achieve an LVR of 60% as the valuation will be based on like for like residential properties when the actual construction cost for SDA is much higher.

Suggested solution - Improve and simplify the SDA framework based on suggestions above to improve lender confidence. Consider mechanisms to give confidence to valuers that the revenue from SDA payments will ensure a higher resale value of the property.

Illowra Projects believe the SDA Framework can be effective in simulating much needed private investment in the disability housing sector however the above issues need to be addressed urgently in order to ensure this occurs. Illowra Projects are receiving feedback from sector participants that due to the complexity and issues of SDA that SDA is too hard to contemplate. For example feedback from a number of Support Co-ordinators is that they do not want to develop specialist knowledge to develop Housing Plans as the risk of letting their clients down is too high and it could damage their reputation. Feedback from some prospective investors is that due to the issues above SDA is too complex and risky to consider.

We hope you find the feedback in this submission of value and share our desire to see the SDA sector grow and flourish. If you have any questions please feel free to contact us on 1300 455 697.