

---

# SDA Framework Review

*Written submission by MUFG Bank, Ltd  
22 June 2018*

# SDA Framework Review

---

## 1. MUFG and its experience in the SDA sector

**MUFG IS ONE OF THE WORLD'S LARGEST FINANCIAL INSTITUTIONS. MUFG HAS BEEN INVOLVED IN THE SDA SECTOR IN AUSTRALIA SINCE EARLY 2017.**

MUFG has been an active participant in the Australian social infrastructure market generally since the early 2000's. Globally, MUFG has financed over \$19bn of social infrastructure across over 10 countries, including social housing in the UK.

The introduction of the Specialist Disability Accommodation framework in Australia creates a further opportunity for MUFG to use its global skills and networks to help Australia develop its social infrastructure and in particular, housing for people with disabilities.

We have been working with community housing providers and potential investors since the inception of the NDIS and the SDA regime in an advisory capacity to structure and optimize potential transactions which could benefit from an SDA payment.

This submission is prepared in response to the "Specialist Disability Accommodation Pricing and Payments Framework Review – Discussion Paper" issued by KPMG on 4 June 2018 and follows the high level Review questions set out in that paper.

## 2. Pricing and Payments

**Does the SDA Framework support the process of appropriately setting prices?**

**ALIGNMENT OF THE SDA PAYMENT REVIEW WITH THE INVESTMENT LIFE OF THE ASSETS IS CRITICAL TO ACHIEVING THE OBJECTIVES OF THE NDIS.**

Although the current SDA prices can in some circumstances cover the costs of investment, development and operation, they are only just sufficient from an adequacy perspective given the following factors:

- The risk associated with changes in the SDA amount payable following reviews contemplated by the SDA Rules, especially Rule 5.5.

- The risk associated with people who are eligible for the SDA actually obtaining an SDA allocation in their NDIS Plan within time periods acceptable for a prudent investment
- Initial costs associated with land acquisition and development approvals
- Volatility of construction costs during the initial land acquisition, development approval and funding process (given uncertainty about eligible tenants)
- Lack of certainty of specific tenants eligible for SDA in a specific area and lack of certainty of them having SDA in their NDIS Plans at the time they indicate a commitment/willingness to reside in a particular accommodation
- Significant costs associated with tenancy management given the resources required to manage SDA payments, assisting tenants with reviewing SDA Plans on an annual basis and similar administrative aspects
- The lack of clarity as to what FF&E may be included as part of SDA payments and what may be needed separately as part of an individual tenant's NDIS Plan.

**GIVEN THE ABOVE, SDA PRICES ARE OFTEN NOT SUFFICIENT TO PROVIDE A REASONABLE RETURN ON INVESTMENT.**

**HOWEVER, MANY INVESTORS IN THIS MARKET HAVE INDICATED THAT THEY WOULD PREFER HIGHER CERTAINTY RATHER THAN HIGHER RETURNS. THE SOLUTION IS CREATING GREATER CERTAINTY OF THE SDA REGIME AND ITS ADMINISTRATION.**

## Recommendations

Key aspects of the Framework need to be considered to achieve greater certainty based on market experience and feedback.

Aspects of the SDA Framework which require particular attention are:

| SDA Framework mechanism | Specific item | Recommendation   |
|-------------------------|---------------|--|
| SDA Rules               | Rules 5.5     | <p>Rule 5.5 should be amended along the following lines:</p> <p><i>“These amounts may be adjusted from time to time <b>in the following way:</b></i></p> <ul style="list-style-type: none"> <li>- <b><i>Annually on 1 July each year and only for movements in the weighted average of all groups CPI in the eight capital cities over the twelve months to the previous March quarter</i></b></li> <li>- <b><i>Every 5 years from a specified date, in</i></b></li> </ul> |

|  |   |  |
|--|---|--|
|  |   | <p><b>accordance with the methodology set out in [these regulations]</b></p> <ul style="list-style-type: none"> <li>- <b>Otherwise, only if there is an urgent and unforeseen need to secure further investment in the SDA market through adjustment in the SDA price</b></li> </ul> <p><b>In all circumstances having due regard to the SDA price being set by reference to an investment profile of at least 20 years.”</b></p>  |
| SDA Rules – Part 6                       | Requirements for SDA Funding                          | <p>Part 6 of the SDA Rules needs to be reviewed in the context of:</p> <ul style="list-style-type: none"> <li>- Long term stability of accommodation for participants</li> <li>- The 20 year investment horizon needed for SDA investment.</li> </ul> <p>All stakeholders need to know that certain participants will have SDA in their plan prior to commencement of development or construction.</p> <p>A key critical aspect is a circumstance in which a resident has SDA in their plan and are continuing to reside in a residence and then the potential for SDA to be removed from their plan in a subsequent review.</p> <p>There is now anecdotal evidence in the market that this is occurring, so clarity in Part 6 that this is not contemplated would be recommended.</p> <p>Additionally a correlation between the time period in Rule 6.4 and actual NDIA performance in the approval of plans with SDA would be of significant assistance.</p> |
| Methodology – Table 4 in SDA Pricing and | The methodology itself should have legislative status | At this stage the regulatory status of the Position and Decision papers is unclear to the market.  |

|                        |   |  |
|------------------------|---|--|
| Payment Position Paper |   |  |
|                        | Transparency of underlying model                          | Many potential financiers have indicated that the release of the underlying model on which future pricing reviews will be based would be highly beneficial.  |
|                        | Annual Indexation with CPI                                | <p>CPI should be publicly confirmed to refer to “average of all groups CPI in the eight capital cities” – i.e. All Cities CPI.</p> <p>There is potential to consider CPI indexation on a State basis by location but this may have adverse consequences for financiers in some circumstances. Further consultation with financiers would be needed if State by State indexation was adopted.</p> <p>State related differences are already separately addressed by Location Factors and it is best to keep location related factors covered in that regard.</p> <p>Many financiers have indicated a strong preference to the CPI being subject to a floor of zero, i.e. No reduction in a deflationary scenario</p> |
|                        | Inclusion of increase in capital value as part of returns | <p>This is inconsistent with the long term tenure needed by many people with disabilities for whom relocation is difficult due to the nature of their disabilities, access to healthcare providers, access to SIL services and family interactions.</p> <p>Increase in property values can only be realised by investors upon sale. Most reputable financial investors are reluctant to invest in a property for the accommodation of people with disabilities where a part or significant proportion of their returns is dependent on the</p>   |

|  |  |  |
|--|--|--|
|  |  | <p>sale of property occupied by an SDA recipient.</p> <p>Although the potential for sale is contemplated as a risk mitigant, if vacancy rates are very high or if there is no demand, it does not form part of most reputable investors' base case returns analysis.</p> <p>Further, these factors are more likely to be taken into account by investors who perceive potential alternate use as part of their investment decision making. This will not meet the objective of generating a stable supply of specialist disabled accommodation in the long term.</p> |
|--|--|--|

### 3. Supply

#### Does the SDA Framework stimulate required volume of supply?

**SINCE ITS INCEPTION THE POTENTIAL SDA MARKET HAS GENERATED A SIGNIFICANT AMOUNT OF ENERGY, INTEREST, ACTIVITY AND GOODWILL. HOWEVER, THE WILLINGNESS OF INVESTORS AND FINANCIERS TO INVEST THEIR TIME, RESOURCES AND ENERGY INTO THE SECTOR HAS BEEN SIGNIFICANTLY THWARTED BY THE LACK OF CERTAINTY AND CLARITY ASSOCIATED WITH THE FRAMEWORK AS WELL AS THE ADMINISTRATION OF THE SDA. THIS HAS MEANT THAT THE CONVERSION RATE OF ACTIVITY INTO ACTUAL INVESTMENT AND SUPPLY HAS BEEN RELATIVELY LOW.**

The key factors needed for supply of any social infrastructure, including specialist disability accommodation are:

- A certain revenue line (income) to support the payment for the inputs associated with the provision of that social infrastructure. In the case of SDA, it is largely the SDA payment. Any uncertainty associated with the SDA payment will constrain supply
- Land – the availability and price of land in appropriate locations close to other relevant services such as transport, health care facilities and appropriate service providers
- Development approvals – the costs and significant time associated with obtaining development approvals especially for specialist accommodation can and have been experienced to constrain supply
- Other approvals – the process of a SDA Registered provider becoming registered requires them to already own an SDA eligible property. This means that during construction a potential SDA provider does not have and cannot provide potential tenants with certainty of having SDA registration
- Appropriate design and construction – greater clarity and certainty is needed as to what type of dwelling will and will not be eligible for SDA registration. Although some developments are occurring in this regard, they need to be enhanced and expedited
- Sector wide eligibility and wait lists – although some online matching facilities have been developed they are not yet of sufficient breadth and depth to satisfy many investors and financiers

#### Recommendation

Although a higher SDA could resolve the above issues, it is our recommendation that significant effort is invested to reduce the uncertainty associated with the following key issues so that an increase in the SDA amount would not be necessary:

- Amend Rule 5.5 as described above;
- Implement very clear national guidelines for design eligibility;
- Confirm that once a participant is deemed eligible for SDA payment, that eligibility will not be withdrawn except in very clear circumstances.

Furthermore, any State transfer or procurement process should take into account the above considerations. All State transfer and procurement processes reliant on SDA payments as sources of revenue should be conducted in close consultation with the NDIA and its intended approach to NDIS Plans for the intended residents. A whole of Federal and State government approach is more likely to drive optimal outcomes for people with disabilities, the stability of the SDA sector and the taxpayer.

## 4. Investment

### **Does the SDA Framework support investor decision making and provide sufficient market certainty?**

**THE FRAMEWORK DOES NOT SUPPORT LONG TERM INVESTMENT DECISION MAKING AS INVESTMENT IS REQUIRED FOR A 20 YEAR OR LONGER PERIOD WHILE THE SUPPORTING REVENUE LINE IS SUBJECT TO A DISCRETIONARY REGULATORY REVIEW AT BOTH SYSTEMIC AND INDIVIDUAL BASIS ANNUALLY.**

MUFG has surveyed over 40 Australian and global developers, investors and financiers and has received consistent feedback that there would be significantly more and possibly cheaper capital available for the SDA if a clearer regulatory Framework was developed which:

- Includes some form of grandfathering regime;
- Has a clear and transparent review methodology using appropriate returns factors;
- Shows a consistency of objectives between the Framework and its implementation.

The above could be achieved by accepting some of the key recommendations set out in this paper.

## 5. Innovation and quality

### **Is the SDA Framework facilitating high quality and innovative SDA models and design?**

Given all the factors discussed above, it is very difficult to tell at this stage whether innovative models are being developed. At this stage it does appear that potential SDA providers are seeking to provide high quality well designed product to ensure that they are competitive in the future when the SDA market does potentially reach demand/supply equilibrium.



## **6. Choice and control**

### **Does the SDA Framework enable choice, control, independence and inclusion?**

Based on recent experience, many participants suggest that choice is largely constrained by the following factors:

- Lack of supply and availability
- Inability to have SDA clearly confirmed in a person's NDIS Plan
- The removal of the SDA from a participant's NDIS Plan
- Lack of clear coordination between SDA provision and SIL services in participants' NDIS Plans
- Lack of coordination between the NDIA and State governments in relation to transfer of existing and procurement of new accommodation.

## **7. Value and sustainability**

### **Does the SDA Framework incentivise value for money in use of NDIS individualized funding and support the ongoing sustainability of the Scheme?**

The separation of the analysis of the cost of SDA from the evaluation of a person's total cost of care (including their SIL payments) can lead to less than optimal results from a value for money perspective. As an example, a slightly larger living space may allow a person to more easily manage behaviour and require less supervision or medication. Over a period of time the ongoing operational costs of behavior management, medication procurement and administration would be significantly higher than an initial higher cost associated with the residential price. The current Framework does not allow for these types of whole of life assessment of total cost of care, thus generating inefficiencies in the Scheme.

## Disclaimer

### **MUFG Bank, Ltd.**

ABN 75 103 418 882

**MUFG Bank, Ltd. is a registered bank in Australia and New Zealand and is part of the Mitsubishi UFJ Financial Group. MUFG Bank is authorised and regulated in Australia by the Australian Prudential Regulation Authority, in New Zealand by the Reserve Bank of New Zealand, and in Japan by the Japanese Financial Services Agency.**

The information herein is provided for information purposes only, and is not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. Neither this nor any other communication prepared by MUFG Bank is or should be construed as investment advice, a recommendation to enter into a particular transaction or pursue a particular strategy, or any statement as to the likelihood that a particular transaction or strategy will be effective in light of your business objectives or operations. Before entering into any particular transaction, you are advised to obtain such independent financial, legal, accounting and other advice as may be appropriate under the circumstances. In any event, any decision to enter into a transaction will be yours alone, not based on information prepared or provided by MUFG Bank. MUFG Bank hereby disclaims any responsibility to you concerning the characterisation or identification of terms, conditions, and legal or accounting or other issues or risks that may arise in connection with any particular transaction or business strategy. Note that MUFG Bank may have issued, and may in the future issue, other reports that are inconsistent with or that reach conclusions different from the information set forth herein. Such other reports, if any, reflect the different assumptions, views and/or analytical methods of the analysts who prepare them, and MUFG Bank is under no obligation to ensure that such other reports are brought to your attention.

MUFG Bank retains copyright to this submission and no part of this submission may be reproduced or redistributed without the prior written permission of MUFG Bank. MUFG Bank, its subsidiaries and affiliates accept no liability whatsoever to any third parties resulting from any unauthorised distribution. MUFG Bank and their subsidiaries, affiliates, directors and employees accept no liability whatsoever for any reliance on the information contained in this proposal and make no representation or warranty as to its accuracy and completeness. The views contained in this proposal (including any statements and forecasts) are solely those of MUFG Bank and are subject to change without notice. MUFG Bank is under no obligation to correct any inaccuracies in the proposal or update the information contained therein.

Copyright 2018 MUFG Bank, Ltd. All rights reserved. ABN 75 103 418 882, AFS Licence No. 234561. Financial Service Providers (FSP) No. 14181

**MUFG Bank, Ltd.**

A member of MUFG, a global financial group

