Specialist Disability Accommodation Limited Assumptions Review 
Final Report 2019

Specialist Disability Accommodation Limited Cost Assumptions Review

Final Report

National Disability Insurance Agency

**October 2019**

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| NDIA | National Disability Insurance Agency |
| --- | --- |
| NDIS | National Disability Insurance Scheme |
| NDIS Q&SC | National Disability Insurance Scheme Quality and Safeguards Commission |
| OOA | Onsite Overnight Accommodation |
| SDA | Specialist Disability Accommodation |

**Acknowledgment**

Growing a strong and successful SDA market that enhances participant choice and control will require constructive communication between the market, participants, Commonwealth and state and territory governments, and the NDIA. The NDIA wishes to thank the persons and organisations who contributed information, evidence, time and resources to the Review through submissions and the consultation process.

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# Executive Summary

Specialist Disability Accommodation (SDA) refers to accommodation for people with a disability who require specialist housing solutions to assist with the delivery of supports that cater for their extreme functional impairment and/or very high support needs. SDA does not refer to the support services, but the homes in which these are delivered. These homes may include specialist designs for people with very high needs or may have a location or features that make it feasible to provide complex or costly supports for independent living. SDA needs to be available in a variety of locations reflecting the diversity of participant preferences. Where people live is important to connections to family and community, including employment and study.

Within the National Disability Insurance Scheme (NDIS), SDA is a type of support (funding) that is provided to some participants. SDA funding is provided to participants who require a specialist dwelling that reduces their need for person-to-person supports, or improves the efficiency of the delivery of person-to-person supports. SDA funding is only provided for participants who are assessed by the National Disability Insurance Agency (NDIA) as having extreme functional impairments and/or very high support needs.

In 2018, KPMG conducted a review of the SDA Pricing and Payments Framework (the KPMG Review), commissioned by the Disability Reform Council (DRC). During the KPMG Review, SDA providers and investors indicated that the assumptions that underpinned the SDA pricing arrangements were largely reasonable. However, there were also submissions that some assumptions, as well as some location factors, did not reflect actual costs, and could discourage investment.

The KPMG Review also found that investors were looking for more certainty about SDA pricing and the way that price reviews would be conducted by the NDIA, including the timing of such reviews.

In response to these issues the DRC and the NDIS Board committed to a number of actions for the NDIA to undertake:

* The next full SDA price review – scheduled at the time for 2021 – was to be delayed until 2023, in order to provide increased pricing certainty at this relatively early stage of the development of the SDA market;
* An immediate SDA Limited Cost Assumptions Review (the Review) pursuant to section 25 of the SDA Pricing and Payments Framework was to be undertaken, in order to examine pricing assumptions and location factor issues that providers considered may be creating unintentional disincentives for investment in particular regions or design categories. The Review was not to result in a reduction to prices.

The Terms of Reference for the SDA Limited Cost Assumptions Review, which were developed in consultation with the newly established SDA Reference Group, were released in April 2019 along with a call for submissions. The SDA Reference Group was also consulted on the selection criteria for the independent experts who were to assist the NDIA to undertake the Review. The primary selection criteria was the ability of the experts to assist the NDIA in fulfilling the terms of reference for the Review.

The Review was focused on SDA location factors and construction cost assumptions for the various building types and design categories. The NDIS SDA Price Guide allows for different construction costs for different design categories of SDA. In order of ascending cost these are: Basic, Improved Liveability, Fully Accessible, Robust, and High Physical Support. The Price Guide also has a location factor, to accommodate the fact that land prices vary greatly by location. For example, land is much more expensive in inner capital city suburbs than it is in country towns.

The Review examined, through submissions, targeted consultation, research and analysis, concerns raised by investors and providers regarding specific existing cost assumptions and location factors underpinning SDA pricing arrangements.

The Review has recommended adjustment to some construction cost assumptions for Fully Accessible and Robust design categories and increases to some location factors in Sydney and Melbourne metropolitan areas. These changes have been recommended in order to support investment across the range of SDA types and locations where the NDIA believes that supply should be stimulated.

The Review also recognises that the SDA market will require ongoing monitoring and stewardship from the NDIA in order to ensure its growth and success. While the Review carefully examined all matters that were submitted to it, new information, data and circumstances are constantly emerging during the maturation of the SDA market. This evolving landscape may present further challenges or opportunities that the NDIA must be prepared to act upon as appropriate.

The Review has therefore recommended some key monitoring activities be formalised as part of the NDIA’s SDA market steward role, including the incorporation of new data sets into analysis and the establishment of supply monitoring cycles for SDA design categories and locations. These activities will continue to inform the NDIA’s approach to SDA pricing ahead of the 2023 price review. If monitoring uncovers particular issues arise prior to then, specific remedial actions via market communication or as part of further limited review(s) under s 25 of the Pricing and Payments Framework can be considered, noting that prices would not be decreased as a result of a limited review process.

## Review Findings

### Location Factors

The Review has found that, relative to the estimated population eligible for SDA and the existing supply of SDA, there is a relative shortage of SDA investment in a number of areas in Sydney (City and Inner South, Eastern Suburbs and Inner West) and in Melbourne (Inner East, Outer East and South East). At the same time, dwelling enrolment data showed that investment appeared to be occurring at expected rates in surrounding metropolitan and regional areas. This provides some evidence that increasing location factors, and hence price caps, for the areas with underinvestment could increase investment in those areas.

**The Review therefore recommends that the NDIA should increase the location factors for the above locations by between 4.0 per cent and 10.5 per cent, depending on location and type of building as set out in Table 8 on page 20 below, to stimulate supply.**

The proposed increases in location factors are based on the conservative approach that a gradual increase in the price caps is the most appropriate way to find the price cap at which additional supply would be generated.

### Moving location factors from SA4 to SA3

Providers also argued that the location factor did not always accurately reflect the variances across costs between the various geographic regions. They considered that as Statistical Area Level 4s (SA4s) cover large areas, there can be considerable cost variation within them. Submissions recommended that Statistical Area Level 3 (SA3) would be more appropriate.

On balance, the Review did not support this change at this time because:

* There are data challenges at smaller statistical areas. For example, SA3 locations do not have a minimum population requirement, and can include ‘zero SA3’ areas with no or negligible population, as per [Australian Bureau of Statistics, SA3 Summary.](https://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/1270.0.55.001~July%202016~Main%20Features~Statistical%20Area%20Level%203%20(SA3)~10015) In contrast, SA4 areas have a minimum population requirement of 100,000 people and are determined with reference to labour markets, travel-to-work interactions and social and economic similarities – which have a strong relevance to accommodation, as per [Australian Bureau of Statistics, SA4 Summary](https://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/1270.0.55.001~July%202016~Main%20Features~Statistical%20Area%20Level%204%20(SA4)~10016). SA4 areas are also much more often used in high-level research and analysis that is necessary for the NDIA to consider as part of determining Scheme policy and pricing of supports.
* The NDIA’s SDA pricing model is currently based fundamentally on the use of SA4 locations. Changing an assumption of this nature is not within the scope of this limited review and would require significant investigation and the development of a new pricing model in order to implement.

The NDIA may consider the use of smaller statistical areas such as SA3s as part of the full 2023 Review of SDA Pricing arrangements, while noting the challenges described above.

### Design category construction cost assumptions

While there is no current or immediate risk of oversupply for any SDA design categories, the Review found that, relative to the expected distribution of demand between design categories as modelled for the NDIA by independent experts at the time of the establishment of the SDA Pricing and Payments Framework, there may be a risk in the longer term of oversupply in certain design categories, particularly High Physical Support dwellings, and undersupply of Fully Accessible and Robust dwellings across Australia at current settings. This expected demand distribution, along with data available on actual enrolled dwellings and those in the pipeline, was used during the Review to compare against and/or verify stakeholder submissions.

The Review received a number of submissions from providers that called for significant increases in the price caps for Fully Accessible and Robust dwellings in order to stimulate supply. However, the Review was not satisfied that the evidence provided supported these larger increases.

On balance, the Review considered that a gradual increase in the price caps for Fully Accessible and Robust categories was currently the most appropriate way in order to find the price cap at which additional supply would be generated. If there has been no increase in new construction by the time of the next SDA review, or new evidence emerges in the interim, adjusting Fully Accessible and Robust category pricing further relative to High Physical Support could be assessed at that point.

**The Review therefore recommends that the NDIA should increase the construction cost assumptions for Fully Accessible and Robust dwellings by 16.0 per cent and 14.0 per cent, respectively, to stimulate supply.**

This translates into increases in the SDA price caps for Fully Accessible dwellings of between 10.1 per cent and 16.4 per cent and in the SDA price caps for Robust dwellings of between 9.4 per cent and 14.1 per cent.

The changes to location factors and cost assumptions recommended by the Review are designed to address pricing issues that could result in a lack of investment or undersupply in certain locations or SDA building types across the growing market. The recommended changes are considered those necessary in order to promote the objectives of the Review. They are not designed to benefit particular SDA investors or providers. Neither are they designed to benefit particular locations or building types, except to the extent that is necessary to incentivise a more equitable distribution of SDA.

### Ongoing monitoring

The NDIS Market Enablement Framework was published in October 2018 and describes the NDIA’s market steward role. This role includes monitoring, evaluation, oversight and, where necessary, intervention. The vision of the NDIS is to build a competitive and contestable marketplace that is flexible and responds to the choices and preferences of participants.

**The Review recommends that the NDIA should monitor the impact of location factors on supply and the distribution of SDA design category supply, through the NDIA’s Market Enablement Framework, to ensure that any residual or emerging problems with location factors or cost assumptions are identified and appropriate actions taken, including if necessary through further limited price reviews, noting such reviews will not result in a reduction to prices.**

**The Review further recommends that the NDIA should, in particular, monitor the supply of Fully Accessible dwelling placements ahead of the 2023 full Review of SDA Pricing Arrangements to ensure that the increases in price caps proposed by the Review are having the desired effect to stimulate supply.**

This monitoring will be conducted internally and occur on an annual basis, with any necessary adjustments to price caps being made for application in the following financial year. Consistent with both the Market Enablement Framework and the SDA Pricing and Payments Framework, adjustments to pricing can be considered if they are necessary to address a significant market issue. Certainty for the market is assured by the scope of limited price reviews, which cannot result in a reduction to prices. Monitoring activities will collect data and analysis to support the full review of SDA Pricing Arrangements in 2023.

### Pricing related to upcoming changes to the SDA Rules

Finally, the Review also considered whether adjustments to SDA pricing arrangements could reduce provider disincentives to accommodate participants who wish to live with non-participants, or participants who are not eligible for SDA. However, as there is an ongoing policy reform process occurring in this area, appropriate price caps can only be determined once the new rules are confirmed.

At the time of writing, changes to the SDA Rules are being discussed at DRC.

The NDIA is continuing work on this issue and is supporting the Department of Social Services to ensure that any changes to pricing are in place at the appropriate time following amendments to the SDA Rules.

# Scope, Purpose and Process of the Review

Specialist Disability Accommodation (SDA) refers to accommodation for people with a disability who require specialist housing solutions to assist with the delivery of supports that cater for their extreme functional impairment and/or very high support needs. SDA does not refer to the support services, but the homes in which these are delivered. These homes may include specialist designs for people with very high needs or may have a location or features that make it feasible to provide complex or costly supports for independent living. SDA needs to be available in a variety of locations reflecting the diversity of participant preferences. Where people live is important to connections to family and community, including employment and study.

Within the National Disability Insurance Scheme (NDIS), SDA is a type of support (funding) that is provided to some participants. SDA funding is provided to participants who require a specialist dwelling that reduces their need for person-to-person supports, or improves the efficiency of the delivery of person-to-person supports. SDA funding is only provided for participants who are assessed by the National Disability Insurance Agency (NDIA) as meeting the eligibility criteria set out in the [*National Disability Insurance Scheme (Specialist Disability Accommodation) Rules 2016*](https://www.legislation.gov.au/Details/F2019C00257)*.* In general, eligible participants will have an extreme functional impairment and/or very high support needs.

SDA supports are a new form of capital funding that provides an income stream to providers who have constructed or purchased SDA. Like other parts of the NDIS, SDA employs a market-based approach by making funding available to participants who meet the criteria for SDA. A participant can then source the supports they choose from the market. For SDA this means that the NDIS provides funding through a participant’s plan and the participant (often with additional support such as a support coordinator) then finds and applies for the best SDA option for them.

## SDA Pricing and Payments Framework

In November 2015, the Council of Australian Government’s Disability Reform Council (DRC) endorsed the [SDA Pricing and Payments Framework (the Framework)](https://www.dss.gov.au/disability-and-carers-programs-services-government-international-disability-reform-council/specialist-disability-accommodation-pricing-and-payments-framework) to provide guidance and instruction on how SDA pricing was to be developed, and for whom, and in what circumstances, SDA funding would be provided.

In 2018, KPMG conducted a review of the [SDA Pricing and Payments Framework (the KPMG Review)](https://www.dss.gov.au/sites/default/files/documents/02_2019/sda-framework-review-08022019.pdf) for the DRC. In general, SDA providers and investors indicated to the KPMG Review that the assumptions underpinning the SDA pricing arrangements were largely reasonable. However, there were submissions that some of the underpinning cost assumptions and location factors did not reflect actual costs, and could discourage investment.

On 9 February 2019, in response to the KPMG Review, DRC in its [Review of the SDA Pricing and Payments Framework](https://www.dss.gov.au/sites/default/files/documents/02_2019/disability_reform_council_response_to_recommendations.pdf) agreed to, *inter alia*:

1. Update the SDA Pricing and Payments Framework to:
   1. Recognise the centrality of choice and control in SDA for eligible participants.
   2. Provide greater certainty to investors that benchmark prices will be determined on the basis that prices will provide appropriate long-term risk weighted returns to investors over the life of the asset given their long term nature, the need to encourage supply, and the associated risks of investing in SDA.
   3. Provide greater visibility of pricing assumptions, including a commitment for the NDIA to only review the specific underlying assumptions within the pricing methodology every 5 years in consultation with a panel of independent experts skilled in pricing. Each five yearly review will occur in the first half of the calendar year, with prices to take effect from 1 July of that year.
   4. Clarify the NDIA may only trigger a special price review within the five year period to respond to systemic cost increases for providers that are due to factors beyond the control of individual providers, or amend pricing assumptions where intended outcomes are not being achieved. This may include responding to unintentional disincentives for investment in particular regions or design categories. Any such reviews will not lead to a downward movement in prices.
   5. Embed a requirement for the NDIA to provide quarterly updates on SDA data, including the number of participants with SDA, the number of SDA dwellings and dwellings by location.
   6. Clarify the roles of the NDIA and NDIS Quality and Safeguards Commission.
   7. Embed the establishment of, and consultation with, an SDA Reference Group by the NDIA to provide practical input on implementation of this response and contribute to the development of the SDA market, choice and control for participants, and the long-term viability of SDA investments. This reference group will comprise participants, their representatives, providers, investors, and other relevant stakeholders.
2. Finalise changes to the SDA Rules to:
   1. Allow SDA funding to be provided in a plan even if a property is not, or will not be, very soon available, to allow eligible SDA participants to use their funding to go out into the market and seek a SDA dwelling that suits their needs. This reform will be implemented by a SDA participant being given a notional budget to find a SDA dwelling. If a dwelling is not available, a participant will receive funding for interim non-SDA supports until they activate their SDA funding by moving into a dwelling.
   2. Remove the requirement for participants to exhaust all other options before they can access SDA funding, to ensure that participants can get access to SDA funding sooner.
3. Direct the NDIA to undertake an immediate review of pricing assumptions consistent with Section 25 of the revised SDA Pricing and Payments Framework to resolve issues that providers consider may be creating unintentional disincentives for investment in particular regions or design categories, including location factors and build cost differentials for specific design categories. Consistent with the framework, the review was not to result in any reductions to current prices. The review was be undertaken with the assistance of independent experts. The SDA Reference Group was to be consulted on establishing selection criteria for the independent experts. Any changes to price were to take effect from 1 July 2019.
4. Delay the next price review outlined in Clause 24 of the revised SDA Pricing and Payments Framework until 2023 to give investors greater certainty over prices while the market is developing.

## SDA Limited Cost Assumptions Review

In response to the DRC’s direction, the Board of the NDIA tasked the NDIA with undertaking the Review to examine issues about some location factors and cost assumptions that providers considered were creating unintentional disincentives for investment in particular locations or design categories. The Terms of Reference for the Review were released in April 2019. They were developed in consultation with the SDA Reference Group, which includes participants, SDA providers, investors and financiers, developers, research and policy organisations and key Department of Social Services, NDIS Quality and Safeguards Commission and NDIA staff. The Reference Group was also consulted on the selection criteria for the independent experts who were to assist the NDIA to undertake the Review ([SDA Reference Group](https://www.ndis.gov.au/about-us/reference-group-updates/sda-reference-group). (2019). *Communique for March 2019)*.

### Terms of Reference

The Review’s [Terms of Reference](https://www.ndis.gov.au/providers/essentials-providers-working-ndia/specialist-disability-accommodation#sda-limited-cost-assumptions-review) were as follows:

1. The Review will examine, through submission, targeted consultation, research and analysis, whether the existing cost assumptions underpinning SDA prices will support investment across the range of SDA types and locations. The review will be open to consider all cost assumptions and factors, however the review will seek to focus in particular on SDA location factors and construction cost assumptions for the various building types and design categories.
2. The Review will focus on factors and assumptions identified through submission and provide analysis and evidence to the NDIS Pricing Reference Group to support a decision on whether changes are required.
3. The Review will also provide analysis to support further consideration by the NDIA regarding whether adjustments to SDA pricing arrangements could reduce provider disincentives to accommodating participants who wish to live with non-participants, or participants who are not eligible for SDA. In doing so, it must be noted that SDA funds are only for eligible participants and cannot be used to contribute to the housing costs of others.
4. The Review will be cognisant of the objectives and principles of the NDIS, as set out in the *National Disability Insurance Scheme Act 2013*, including that the NDIS should:
   1. support the independence and social and economic participation of people with disability;
   2. enable people with disability to exercise choice and control in the pursuit of their goals and the planning and delivery of their supports;
   3. facilitate the development of a nationally consistent approach to the access to, and the planning and funding of, supports for people with disability;
   4. promote the provision of high quality and innovative supports that enable people with disability to maximise independent lifestyles and full inclusion in the community;
   5. adopt an insurance based approach, informed by actuarial analysis, to the provision and funding of supports for people with disability; and
   6. be financially sustainable.

Consistent with the SDA Pricing and Payments Framework, the Review was not to result in any reductions to current price caps. Any changes to price caps were to take effect from 1 July 2019.

## Process of the Review

The Review commenced in April 2019 with the release of its Terms of Reference and a public call for submissions. The call for submissions was placed on the NDIA’s website, as well as being circulated amongst members of the SDA Reference Group, the NDIS Independent Advisory Council and the NDIA CEO Forum. Deloitte Touche Tohmatsu Limited were engaged by the NDIA to assist the NDIA undertake the Review by reviewing submissions, gathering evidence, developing options, drafting papers and arranging and undertaking limited targeted consultations with stakeholders. Figure 1 below outlines the consultation and analysis process of the Review. As part of drafting this report, the Review compared submissions with objective data sources.

Figure 1: Consultation and Review process

**Initial submissions**

Initial submissions to the SDA Limited Cost Assumptions Review closed at 5:00pm AEST on Friday 16 May 2019.

**1**

**Stakeholder consultations**

Follow-up consultation with industry stakeholders from submitted responses were held.

**Second round of submissions**

The second round of submissions was open to new and previous stakeholders.

Conversations between the NDIA and stakeholders were also held.

**2**

**3**

**Final SDA review report**

Final findings are presented in this report and are based on the information provided in the 2018 SDA Pricing and Payments Framework review; the first and second round of submissions and consultation; and analysis of supply and construction activity data.

**4**

The first round of public submissions closed on Friday 17 May 2019 and provided the initial focus for the assumptions to be considered in the Review. The following organisations provided submissions during the first submission phase:

* Summer Housing
* Summer Foundation
* Blue CHP
* SDA Alliance (including a combined submission and further individual contributions from a number of members)
* Hume Community Housing
* Illowra Projects
* Macquarie Bank (Macquarie Infrastructure Real Assets)
* Australian Dual Diagnosis Recovery Network

Several other individuals also made submissions in their personal capacities to the Review.

Follow-up consultations occurred with some of the industry stakeholders who submitted responses. The follow-up consultations sought additional and supporting evidence regarding construction and other costs to support written submissions. These initial submissions and consultations provided the foundation for the Interim Report of the SDA Limited Cost Assumptions Review, which was submitted to the SDA Reference Group for comment.

Following consideration of the Interim Report, the NDIA agreed to receive additional input from a second round of submissions. The purpose of these submissions was to gather additional evidence including more precise estimates of construction costs for Improved Liveabilitydesign, Robust, and Fully Accessibledesign categories. The second round of submissions, which closed on 2 July 2019, was open to both those stakeholders who had already submitted submissions and new public submissions. Notice was circulated in the same way as the first round of submissions. These responses were considered in conjunction with the interim report and first round of submissions. The following organisations provided follow-up submissions:

* Macquarie Bank (Macquarie Infrastructure Real Assets)
* SDA Alliance
* Summer Housing
* Illowra Projects
* Guardian Living
* Youngcare

The findings presented in this Final Report are based on the information from the first and second round of submissions and consultations as part of the Review, as well as analysis performed by the NDIA which included review of dwelling enrolment data, actuarial information and SDA demand modelling.

# Background

## Statistics

On 30 June 2019, some 13,309 participants (4.5 per cent of all participants) had SDA supports in their plans, with the number of participants with SDA supports in their plans increasing by 7.7 per cent in the previous quarter and 50.3 per cent in the previous year. Figure 2 below shows how the number of participants with SDA supports in their plans has increased since June 2017. Statistics in this Section are drawn from the NDIA. (2019). [Report to the COAG Disability Reform Council for Q4 OF Y6](https://www.ndis.gov.au/about-us/publications/quarterly-reports) as well as unpublished dwelling enrolment data held by the NDIA.

Figure 2: Active participants with SDA supports in their plans

Figure 2: Active participants with SDA supports in their plans
Figure 2 below shows how the number of participants with SDA supports in their plans has increased since June 2017. There is a fairly linear updward trend.

Some 977 providers were registered to provide SDA across Australia on 30 June 2019. That number had increased by 9.5 per cent over the previous quarter and 41.2 per cent in the previous year. The number of active SDA providers increased from 118 to 140 over the three months to 31 March 2019 – and increase of 18.6 per cent in the previous quarter and 164.2 percent in the previous year.

A total of 10,320 SDA places, in 3,115 dwellings, were enrolled for the delivery of SDA supports as at 31 March 2019. Those numbers had increased by 5.8 per cent (485 places) and 4.9 per cent (172 dwellings) respectively over the previous quarter and 45.6 per cent (3,227 places) and 59.7 per cent (1,164 dwellings) respectively over the previous year. Figure 3 below shows how the number of available SDA dwellings and bedrooms has increased since March 2018.

Figure 3: SDA dwellings and bedrooms/places

Figure 3: SDA dwellings and bedrooms/ places
Figure 3 shows a bar chart of annualised data since March 2018. Dwelling numbers have increased every quarter from around 2000 in March 2018  to over 3000 in June 2019. 
Places have also gone up since March 2018 except for a flat period between September 2018 and December 2018. In March 2018 there were over 7000 places, and as of June 2019 there are around 12,000.

On 30 June 2019, the annualised value of SDA supports in participant plans was $144 million. This represented a 13.7 per cent increase on the previous quarter, and a 67.2 per cent increase on the previous year (see Figure 4 below).

Figure 4: Annualised SDA supports in active plans ($m)

Figure 4: Annualised SDA supports in active plans ($m)
Figure 4 shows a bar chart of annualised SDA supports in active plans from 30 June 2017 to 30 June 2019; shown as a quarterly breakdown.
The 30th June 2017 had an amount of 34 million dollars and the 30th June 2019 had an anmount of 144 million dollars. 

## Price controls

The prices that providers can charge participants for SDA are regulated by the NDIS through the [*SDA Price Guide*](https://www.ndis.gov.au/providers/price-guides-and-information/sda-pricing-and-payments).

The annual SDA price cap for a dwelling is based on a number of factors and can be divided into a number of steps:

* Step 1: Is the dwelling a New Build, Existing Stock or Legacy Stock?
* Step 2: Determine the Base Price Cap:
* Step 2A - Identify the Building Type
* Step 2B - Identify the Design Category
* Step 2C - Identify if there is a room for On-Site Overnight Assistance
* Step 2D – Determine the Base Price Cap
* Step 3: Identify if there is an additional breakout room
* Step 4: Identify the Location Factor
* Step 5: Identify the Fire Sprinkler allowance (if applicable)
* Step 6: Apply the formula in the box above

| *SDA price cap = (Base Price Cap + Breakout Room Price Cap (if applicable))*  *Multiplied by Location Factor*  *Multiplied by (1 + Fire Sprinkler Allowance) (if applicable)* |
| --- |

### Step 1: New Build, Existing Stock or Legacy Stock

Different SDA price caps are paid depending on whether the dwelling used to provide SDA is classified as a New Build, Existing Stock or Legacy Stock. The definitions for New Build, Existing Stock and Legacy Stock are set out in the SDA Rules and the SDA NDIS Q&SC Rule. They are summarised in Table 1 below.

Table 1: Definitions of New Build, Existing Stock and Legacy Stock

| Type of SDA | Definition |
| --- | --- |
| New Build | A dwelling is a New Build if it meets all of the following five conditions:   1. either:    1. it was issued its first certificate of occupancy (or equivalent) on or after 1 April 2016; or    2. it has been renovated or refurbished and issued with a certificate of occupancy (or equivalent) after 1 April 2016, and:       1. because of the renovation or refurbishment the dwelling meets the Minimum Requirements for a Design Category other than Basic design set out at Step 2B below; and       2. the cost of the refurbishment is equal to or greater than the amount set out in than the cost set out in the costs schedule published by the Agency for this purpose; and 2. either:    1. It is enrolled to house five or fewer long-term residents (excluding support staff); or    2. It is the home of a participant who intends to provide SDA to themselves (as a registered provider) and to reside there with the participant’s spouse or de facto partner and children; and 3. all its shared areas and the majority of its bedrooms and similar sized private rooms comply with the Minimum Requirements for a Design Category other than Basic design set out at Step 2B below; 4. it does not breach the density restrictions for New Builds in SDA Rules 6.14 to 6.17. The density restrictions apply when there are multiple dwellings on a single parcel of land; and 5. fewer than 20 years have elapsed from the date the certificate of occupancy (or equivalent) in paragraph 1 of the Definition of New Build above was issued. |
| Existing Stock | A dwelling is Existing Stock if it meets all of the following six conditions:   1. it does not have a certificate of occupancy for a New Build (described in paragraph 1 of the definition of New Builds above); and 2. it is enrolled to house five or fewer long-term residents (excluding support staff); and 3. it has been, at some time between 1 July 2013 and 1 December 2016, primarily used as accommodation for people with disability who have an extreme functional impairment or very high support needs; and 4. it is not an aged care, health care or other facility that is not specifically intended for use as disability accommodation; and 5. it housed at least one resident who received disability related supported accommodation (or equivalent) payments from a State, Territory or Commonwealth Government at some time between 1 July 2013 and 1 December 2016; and 6. all its shared areas and the majority of its bedrooms and similar sized private rooms comply, or substantially comply, with the Minimum Requirements for any of the Design Categories set out at Step 2B below.   A dwelling is also Existing Stock if it meets all of the following three conditions:   1. it does not have a certificate of occupancy for a New Build (described in paragraph 1 of the definition of New Builds above); and 2. either: 3. It is enrolled to house five or fewer long-term residents (excluding support staff); or 4. It is the home of a participant who intends to provide SDA to themselves (as a registered provider) and to reside there with the participant’s spouse or de facto partner and children; and 5. All its shared areas and the majority of its bedrooms and similar sized private rooms comply with the Minimum Requirements for a Design Category other than Basic design set out at Step 2B below.   A dwelling is also Existing Stock if it would be a New Build except for the application of paragraph 5) of the Definition of New Builds above that is, if 20 years or more have elapsed from the date the certificate of occupancy (or equivalent) was issued. |
| Legacy Stock | A dwelling is Legacy Stock if it meets all of the following six conditions:   1. It does not have a certificate of occupancy for a New Build (described in paragraph 1 of the definition of New Builds above); and 2. It is enrolled to house more than five long-term residents (excluding support staff); and 3. It has been, at some time between 1 July 2013 and 1 December 2016, primarily used as accommodation for people with disability who have an extreme functional impairment or very high support needs; and 4. It housed at least one resident who received disability related supported accommodation (or equivalent) payments from a State, Territory or Commonwealth Government at some time between 1 July 2013 and 1 December 2016; and 5. It is not an aged care, health care or other facility that is not specifically intended for use as disability accommodation; and 6. All its shared areas and the majority of its bedrooms and similar sized private rooms comply, or substantially comply, with the Minimum Requirements for any of the Design Categories set out at Step 2B below. |

### Step 2A: Building Type

Dwellings are enrolled according to the Building Type specified by the registered provider and the SDA price cap that applies for the dwelling depends on the Building Type under which the dwelling is enrolled. The complete list of Building Types for which there are separate SDA price caps is as follows:

* 1. Apartment, either 1, 2 or 3 bedrooms
  2. Villa/duplex/townhouse, either 1, 2 or 3 residents
  3. House, either 2 or 3 residents
  4. Group Home, either 4 or 5 residents
  5. Legacy Stock, 6+ residents.

Table 2 sets out the definitions of each Building Type and provides further detail on the descriptions contained in the SDA Rules and the SDA NDIS Q&SC Rule.

Table 2: Definitions of the Building Types

| Building Type | Definition | Typical Building Code of Australia classification |
| --- | --- | --- |
| Apartments | * Apartments are self-contained units occupying only part of a larger residential building. * Apartments are typically built above or below another dwelling. Self-contained dwellings that are separated from other dwellings by walls alone are not apartments but are likely to be a villa, duplex or townhouse. | Class 2 |
| Villas, Duplexes and Townhouses | * Villas, duplexes and townhouses are dwellings for one, two or three residents. * Villas, duplexes and townhouses are generally separate but semi-attached properties within a single land title or strata titled area. * Dwellings will be separated by a fire-resisting wall (although fire resistance is not required for Existing Stock). * Each villa, duplex or townhouse must have a separate and reasonably accessible entry to/exit from the property, and participants must not be able to internally travel between dwellings. That is, participants must be required to exit one dwelling in order to enter another. Restricted internal access between dwellings may be provided for support staff only. * Villas, duplexes and townhouses may also be ancillary dwellings that are located on the same parcel of land as another dwelling (e.g. fully self-contained ‘granny flats’). | Class 1(a)(ii), or  Class 3  Class 1(a)(i) |
| Houses | * Houses are detached low-rise dwellings with garden or courtyard areas. * To be a house (rather than a villa/duplex/townhouse) the dwelling must be located on a clearly separated land area (e.g. separated by a fence, hedge or other form of delineation that is in keeping with the character of the neighbourhood). * It must not share a wall, roof, entry area, driveway, car parking or outdoor area with any dwelling other than an ancillary Villa/Townhouse/Duplex with no more than one resident. * A house is not to have more than two ancillary Villa/Duplex/Townhouses, otherwise the primary dwelling is likely to be considered a Villa/Townhouse/Duplex. * Each house must have a land area that is proportional with the number of residents and keeps with similar properties in the neighbourhood. | Class 1(a)(i),  Class 1(b)(i), or  Class 3 |
| Group Homes | * Group Homes are distinguished from other houses by the larger number of residents (four or five long term residents). | Class 1(b)(i), or  Class 3 |

### Step 2B: Design Category

The SDA price cap that applies for the dwelling depends on the Design Category under which the dwelling is enrolled. SDA price caps are based on five broad categories of SDA design which are set out in the legislation. The five Design Categories are:

* 1. Basic,
  2. Improved Liveability,
  3. Fully Accessible,
  4. Robust, and
  5. High Physical Support.

For New Builds, all shared areas and the majority of bedrooms and similar sized private rooms must comply with the Minimum Requirements set out in Table 3 below. For Existing Stock, there must be substantial compliance with the Minimum Requirements. Substantial compliance means compliance in all but a few non-critical respects.

Table 3: Description of Minimum Design Category Requirements

| SDA Design Category | Definition | Minimum Requirements |
| --- | --- | --- |
| Basic | Housing without specialist design features but with a location or other features that cater for the needs of people with disability and assist with the delivery of support services. | * The Basic design category only applies for Existing Stock or Legacy Stock and cannot be included in a participant’s plan except as an alternative interim option or if the participant already lives in Basic design SDA (SDA Rules 4.4 and 4.11). |
| Improved Liveability | Housing that has been designed to improve ‘liveability’ by incorporating a reasonable level of physical access and enhanced provision for people with sensory, intellectual or cognitive impairment. | * Livable Housing Australia ‘Silver’ level. * The designed environment responds to the needs of participants through improved physical access and enhanced provision for participants with sensory, intellectual or cognitive impairment. For example, Improved Liveability dwellings should include one or more additional design features such as the below depending on the needs of the participants: Luminance contrasts; Improved wayfinding; and/or Lines of sight. |
| Fully Accessible | Housing that has been designed to incorporate a high level of physical access provision for people with significant physical impairment. | * Livable Housing Australia ‘Platinum’ level. * External doors and external outdoor private areas to be accessible by wheelchair. * Bathroom vanity/hand basin to be accessible in seated or standing position. * Power supply to doors and windows (blinds), for retrofit of automation as necessary. * Consideration must be given to whether it is appropriate for the kitchen sink, cooktop, meal preparation bench area and key appliances (dishwasher, oven, microwave oven and laundry appliances) to be accessible in seated or standing position. |
| Robust | Housing that has been designed to incorporate a high level of physical access provision and be very resilient, while reducing the likelihood of reactive maintenance and reducing the risk to the participant and the community. | * Livable Housing Australia ‘Silver’ level. * Resilient but inconspicuous materials that can withstand heavy use and minimises the risk of injury and neighbourhood disturbance including: * High impact wall lining, fittings and fixtures (e.g. blinds, door handles); * Secure windows, doors and external areas; * Appropriate sound proofing if residents are likely to cause significant noise disturbances (if required must retro-fit in new builds if not previously installed at building stage); and * Laminated glass. * Layout with areas of leaving or retreat for staff and other residents to avoid harm if required. * Consideration must be given to providing adequate space and safeguards throughout the property to accommodate the needs of residents with complex behaviours. |
| High Physical Support | Housing that has been designed to incorporate a high level of physical access provision for people with significant physical impairment and requiring very high levels of support. | * Livable Housing Australia ‘Platinum’ level. * External doors and external outdoor private areas to be accessible by wheelchair. * Bathroom vanity/hand basin to be accessible in seated or standing position. * Power supply to doors and windows (blinds), for retrofit of automation as necessary. * Consideration must be given to whether it is appropriate for the kitchen sink, cooktop, meal preparation bench area and key appliances (dishwasher, oven, microwave oven and laundry appliances) to be accessible in seated or standing position. * Structural provision for ceiling hoists. * Assistive technology ready. * Heating/cooling and household communication technology (e.g. video or intercom systems) appropriate for the needs of residents. * Emergency power solutions to cater for a minimum two hour outage where the welfare of participant/s is at risk. * Doors with 950mm minimum clear opening width to all habitable rooms. |

### Step 2C: On-Site Overnight Assistance

The On-site Overnight Assistance (OOA) amount is only paid when an additional space is used by support staff who provide support services overnight to participants living in the same dwelling that contains the OOA space or in a near-by dwelling. The form of OOA varies between Building Type and the amount of the OOA assistance payment made in relation to this space, as a consequence, may depend on whether access to the OOA is shared between multiple dwellings. Table 4 describes the OOA and when OOA is payable.

Table 4: Description of OOA by Building Type & when OOA is payable

| Building type | Description of OOA | When OOA is payable |
| --- | --- | --- |
| Apartment | The OOA space must be a separate apartment in the same apartment complex as the SDA apartment.  The OOA amount is not paid when the OOA space is an additional room in a SDA apartment. | A maximum of 10 SDA apartments. The OOA amount for one separate OOA apartment is payable for a maximum of 10 SDA apartments.  No OOA amount is payable once the OOA amount has been added for 10 SDA apartments. |
| Other building types | An additional room inside or adjoining the dwelling(s). | While the OOA may be shared between multiple dwellings, it can only be claimed against one dwelling. |

### Step 2D: Determine the Base Price Cap

The Base Price Cap for each Building Type for dwellings with and without OOA, are set out in the NDIS SDA Price Guide. As Table 5 below indicates, SDA price caps vary substantially according the design category and type of building; ranging from $13,244 per year for Group Accommodation with five residents in an Improved Liveability building with no On-site Overnight Accommodation (OOA), to $105,738 per year for a participant living alone in a two bedroom apartment with OOA.

Table 5: Price cap per participant, by SDA type, 2018-19, with Review recommendations applied

|  |  | **Improved liveability** | | **Fully accessible** | | **Robust** | | | **High Support** | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **No OOA** | **With OOA** | **No OOA** | **With OOA** | **No OOA** | **With OOA** | **+1 Room** | **No OOA** | **With OOA** |
| Apartment, 1 bedroom, 1 resident | | $35,149 | $41,007 | $56,752 | $66,211 | na | na | na | $72,844 | $84,984 |
| Apartment, 2 bedrooms, 1 resident | | $41,847 | $48,822 | $69,129 | $80,651 | na | na | na | $90,632 | $105,738 |
| Apartment, 3 bedrooms, 2 residents | | $21,844 | $24,496 | $39,810 | $46,444 | na | na | na | $55,310 | $64,528 |
| Villa, 1 bedroom, 1 resident | | $24,755 | $27,379 | $38,158 | $41,992 | $44,964 | $49,650 | na | $50,604 | $54,953 |
| Duplex/townhouse, 2 residents | | $15,495 | $16,726 | $23,611 | $25,473 | $28,179 | $30,439 | $1,901 | $32,338 | $34,430 |
| Duplex/townhouse, 3 residents | | $12,655 | $13,494 | $20,104 | $21,349 | $24,431 | $25,936 | $1,266 | $28,396 | $29,788 |
| House, 2 people | | $22,628 | $23,861 | $30,922 | $32,784 | $36,099 | $38,358 | $1,901 | $40,051 | $42,143 |
| House, 3 people | | $17,785 | $18,724 | $26,129 | $27,524 | $30,701 | $32,365 | $1,399 | $37,618 | $39,303 |
| Group Accom, 4 people | | $15,673 | $16,378 | $23,479 | $24,544 | $27,767 | $29,028 | $1,061 | $33,659 | $34,927 |
| Group Accom, 5 residents | | $13,244 | $13,822 | $20,680 | $21,523 | $24,509 | $25,504 | $838 | $30,117 | $29,909 |

### Step 3: Additional breakout room

A breakout room is a separate room designed to respond to the individual disability related needs of the participant. It is not a study or living/dining area but is intended to be dedicated and used to enhance learning, exploration or positively impact mood. Only dwellings that are in the Robust Design Category can have an additional breakout room. Some dwellings may have both an OOA and a breakout room. The additional price associated with a breakout room are set out in the NDIS SDA Price Guide. No additional amount is associated with a breakout room for Legacy Stock.

### Step 4: Location Factor

The Location Factors applied in SDA pricing are based on Australian Bureau of Statistics (ABS) Statistical Area 4 regions. To derive a SDA price cap for a particular dwelling, the Base Price Cap (before the fire sprinkler allowance) is multiplied by the Location Factor relevant to the property’s location and Building Type. The location factors are set out in the NDIS SDA Price Guide.

### Step 5: Fire Sprinklers

A Fire Sprinkler Allowance is payable when fire sprinklers have been installed throughout the SDA dwelling and they comply with all relevant building codes and laws. For example, they comply with requirements in relation to installation, testing and maintenance. To adjust the SDA price cap for fire sprinklers, the location-adjusted Base Price is multiplied by (1 + the Fire Sprinkler Allowance) for the Building Type. The Fire Sprinkler Allowance amount is: 1.2% for Apartments and 1.9% for other Building Types.

## Key Assumptions for SDA Benchmark Pricing

This Section sets out the costs assumptions that were in place prior to the Review. Note: All assumptions are in 2016-17 dollars – SDA price caps are indexed annually by CPI.

***Table 6: Key Assumptions for SDA Benchmark Pricing***

**Table 6.1 General Parameters**

| DESCRIPTION | RANGE | SOURCE OR RATIONALE |
| --- | --- | --- |
| **General Parameters** | | |
| Investment horizon | 20 years | Consultation with investors and financiers |

**Table 6.2 Rental Contributions from Participant**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DESCRIPTION | | RANGE | | SOURCE OR RATIONALE |
| **Rental contributions from participant** | | | | |
| Annual rental contribution p.p. | $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. | |

**Table 6.3 General Market Information**

| DESCRIPTION | RANGE | SOURCE OR RATIONALE |
| --- | --- | --- |
| **General market information** | | |
| 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. |

**Table 6.4 Cost of Ownership**

| DESCRIPTION | RANGE | SOURCE OR RATIONALE |
| --- | --- | --- |
| **Cost of ownership** | | |
| 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. |

**Table 6.5 Property Costs**

| DESCRIPTION | RANGE | SOURCE OR RATIONALE |
| --- | --- | --- |
| **Property costs** |  |  |
| 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. |

**Table 6.6 Financing**

| DESCRIPTION | RANGE | SOURCE OR RATIONALE |
| --- | --- | --- |
| **Financing** |  |  |
| Debt rate | 5.2% | Ten year Commonwealth Bond rate plus 2.5 per cent debt margin. |
| Pre-tax equity return | 11.6% | 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. |

# Location factor issues and recommendations

In accordance with the Terms of Reference, the Review was tasked with analysing location factors where providers viewed there to be barriers to investment. While the Review examined other locations to determine the veracity of those locations submitted, the Review was designed to address specific concerns identified by providers, rather than to conduct a wholesale re-evaluation of every SA4 location. More broad monitoring and intervention with respect to SA4 location factors will be handled through the NDIA’s Market Enablement Framework, as described in part 6 of this report.

Thirteen (13) regions were identified in submissions as being of particular concern.

Table 7 below provides some information on SDA in these regions.

Table 7: SA4 locations by submissions received and number of SDA Dwelling Placements per 1000 participants

| Regions | Number of submissions | Number of SDA Dwelling Placements per 1000 participants  (Total) | Number of SDA Dwelling Placements per 1000 participants  (New) |
| --- | --- | --- | --- |
| VIC - Melbourne - Inner | 1 | 5.7 | 1.8 |
| VIC - Melbourne - South East | 6 | 11.7 | 1.5 |
| VIC - Melbourne - Outer East | 4 | 12.1 | 1.0 |
| NSW - Sydney - City & Inner South | 4 | 12.6 | 0.0 |
| QLD - Townsville | 1 | 14.1 | 2.4 |
| NSW - Sydney - Eastern Suburbs | 4 | 15.6 | 0.3 |
| NSW - Sydney - Outer South West | 1 | 18.5 | 0.8 |
| VIC - Melbourne - Inner East | 4 | 19.8 | 0.0 |
| NSW - Sydney - Inner West | 4 | 20.0 | 0.0 |
| VIC - Melbourne - Inner South | 2 | 24.1 | 1.2 |
| NSW - Sydney - Parramatta | 1 | 35.5 | 11.9 |
| NSW - Sydney - Northern Beaches | 7 | 51.2 | 9.0 |
| NSW - Sydney - Ryde | 1 | 105.0 | 18.4 |
| Australia |  | **18.5** | **1.8** |

The regions fall into four broad categories.

First, three regions already have more than the national average of SDA dwelling placements relative their population and also already have more new investment in SDA relative to their population than the national average. These regions are:

* NSW - Sydney – Parramatta;
* NSW - Sydney – Northern Beaches; and
* NSW - Sydney – Ryde.

Although these regions were mentioned in submissions, the Review did not consider there was any reason to adjust location factors for these regions, as they were clearly already attracting a significant level of investment. For example, although seven (7) submissions raised concerns about the investability of SDA in the Sydney – Northern Beaches region, the Review noted that there had already been eight (8) New Builds in the region as at the last quarter – a doubling from the previous quarter – so the case for an increased location factor for this region was not considered to be strong.

Second, two regions already have more new investment in SDA relative to their population than the national average but have less than the national average of SDA dwelling placements relative their population. These regions are:

* VIC – Melbourne – Inner; and
* QLD – Townsville.

Although these regions were mentioned in submissions and are currently undersupplied relative to population, the Review did not consider there was a strong reason to adjust location factors for these regions, as they were also clearly already attracting a significant level of investment.

Third, four regions already have more than the national average of SDA dwelling placements relative their population but also have less overall investment in SDA relative to their population than the national average. These regions are:

* NSW - Sydney - Outer South West;
* VIC - Melbourne - Inner East;
* NSW - Sydney - Inner West; and
* VIC - Melbourne - Inner South.

The Review did not consider that there was a strong case to increase location factors for two of these regions: Sydney - Outer South West and Melbourne - Inner South, as there was increased new investment occurring in these regions. However, the Review noted that in two of the regions (Melbourne - Inner East and Sydney - Inner West) there has not yet been any new investment in SDA and that there was therefore some evidence of a need to increase the location factors for these regions.

Finally, four regions have less than the national average of SDA dwelling placements relative their population and also have less new investment in SDA relative to their population. These regions are:

* VIC - Melbourne - South East;
* VIC - Melbourne - Outer East;
* NSW - Sydney - City & Inner South; and
* NSW - Sydney - Eastern Suburbs.

This evidence suggests the current location factors for these locations as too low to support sufficient investment in the whole area or within key parts of the area.

Submissions also indicated that changes were mostly required to location factors for apartments, with the exception of the Melbourne – South East region. This reflects the importance of apartments to participant choices in areas where lower density housing is not common and where other factors are likely to be affecting the viability of freestanding projects, such as the scarcity of appropriate land. Conversely, Melbourne – South East extends into outer suburban areas where there is ongoing building of new houses, and hence a need to address location factors for this type of dwelling.

**The Review therefore recommends that the NDIA should increase the location factors for the locations set out in Table 8 on page 20 below by between 4.0 per cent and 10.5 per cent, depending on location and type of building, to stimulate supply.**

* For most of these regions, the recommended price limit increases are between 4 and 5.5 per cent. However, for Sydney-Inner West there is a dearth of new builds - against large numbers of new builds in neighbouring regions. Accordingly, location factors for Sydney-Inner West have been increased to comparable absolute levels for Sydney- City and Inner South, and Sydney-Eastern Suburbs.

The proposed new location factors are based on those in surrounding areas where investment is occurring and on the conservative approach that a gradual increase in the price caps is the most appropriate way to find the price cap at which additional supply will be generated.

Table 8: Recommended Adjustments to Location Factors

| Building Type | Apartment | | | | Villa / Duplex / Townhouse | | | House | | Group Home | Legacy |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Bedrooms | 1 | 2 | 2 | 3 |  |  |  |  |  |  |  |
| Residents | 1 | 1 | 2 | 2 | 1 | 2 | 3 | 2 | 3 |  |  |
| NSW - Sydney - City and Inner South | 1.14 | 1.12 | 1.12 | 1.10 | 1.76 | 2.25 | 2.53 | 1.93 | 2.15 | 2.31 | 2.31 |
| Revised | 1.20 | 1.18 | 1.18 | 1.16 | 1.76 | 2.25 | 2.53 | 1.93 | 2.15 | 2.31 | 2.31 |
| Increase | 5.3% | 5.4% | 5.4% | 5.5% |  |  |  |  |  |  |  |
| NSW - Sydney - Eastern Suburbs | 1.12 | 1.10 | 1.10 | 1.09 | 1.63 | 2.04 | 2.27 | 1.78 | 1.96 | 2.09 | 2.09 |
| Revised | 1.18 | 1.16 | 1.16 | 1.15 | 1.63 | 2.04 | 2.27 | 1.78 | 1.96 | 2.09 | 2.09 |
| Increase | 5.4% | 5.5% | 5.5% | 5.5% |  |  |  |  |  |  |  |
| NSW - Sydney - Inner West | 1.07 | 1.06 | 1.06 | 1.05 | 1.36 | 1.59 | 1.71 | 1.44 | 1.54 | 1.61 | 1.61 |
| Revised | 1.18 | 1.17 | 1.17 | 1.16 | 1.36 | 1.59 | 1.71 | 1.44 | 1.54 | 1.61 | 1.61 |
| Increase | 10.3% | 10.3% | 10.4% | 10.5% |  |  |  |  |  |  |  |
| VIC - Melbourne - Inner East | 0.99 | 0.99 | 0.99 | 0.98 | 1.06 | 1.11 | 1.14 | 1.08 | 1.10 | 1.12 | 1.12 |
| Revised | 1.03 | 1.03 | 1.03 | 1.02 | 1.06 | 1.11 | 1.14 | 1.08 | 1.10 | 1.12 | 1.12 |
| Increase | 4.0% | 4.0% | 4.0% | 4.1% |  |  |  |  |  |  |  |
| VIC - Melbourne - Outer East | 0.97 | 0.97 | 0.97 | 0.96 | 0.94 | 0.91 | 0.90 | 0.93 | 0.92 | 0.91 | 0.91 |
| Revised | 1.02 | 1.02 | 1.02 | 1.01 | 0.94 | 0.91 | 0.90 | 0.93 | 0.92 | 0.91 | 0.91 |
| Increase | 5.2% | 5.2% | 5.2% | 5.2% |  |  |  |  |  |  |  |
| VIC - Melbourne - South East | 1.01 | 1.01 | 1.01 | 1.02 | 1.00 | 0.98 | 0.98 | 0.99 | 0.98 | 0.98 | 0.98 |
| Revised | 1.06 | 1.06 | 1.06 | 1.07 | 1.05 | 1.03 | 1.03 | 1.04 | 1.03 | 1.03 | 0.98 |
| Increase | 5.0% | 5.0% | 4.9% | 5.0% | 5.1% | 5.1% | 5.1% | 5.1% | 5.1% | 5.1% |  |

Providers also argued that the location factor did not always accurately reflect the variances across costs between the various geographic regions. They considered that as Statistical Area Level 4s (SA4s) cover large areas, there can be considerable cost variation within them. A number of submissions recommended that Statistical Area Level 3 (SA3) would be more appropriate. The variation in costs of land across SA4s could, submissions argued, lead to participants established in an area being required to move over 20kms away from work, study, family, established funded supports and informal supports due to SDA developments only occurring in the lower cost areas of regions.

Moving to SA3 regions does not necessarily solve these potential problems, however. Instead of promoting an even spread of SDA, changing the SDA pricing model to SA3 could instead lead to the targeting of very specific areas where returns can be maximised, reducing the goal of the SDA framework to promote inclusivity and community engagement through the availability of SDA across communities.

Further, moving to SA3s as the basis of SDA pricing would be complex and require detailed work to calculate a new set of location factors and the development of a new SDA pricing model. It would require reclassification of all areas and could lead to reductions in location factors for dwellings that have already been constructed. This work is outside the scope of the current Review.

Smaller areas such as SA3 also involve separate challenges to SA4. While there may be some cost variances within an SA4, there is more consistency between different areas within this category. SA3 areas are much more varied. Population variance in particular poses a challenge, with SA3 areas sometimes having low or no population (‘zero SA3s’). Data sets and research relevant to accommodation that is considered as part of SDA policy is also more frequently put in terms of SA4 locations. A move to SA3 would require translation of this material, which would take significant ongoing time and resources.

There are therefore a number of risks associated with attributing location factors to price caps on a very detailed level. Any such change would need to be carefully considered.

On balance, the Review did not support this change at this time. The NDIA may consider the use of smaller statistical areas such as SA3s as part of the 2023 full Review of SDA Pricing Arrangements, noting the challenges described above.

Analysis by the Review of median land value data shows that Sydney and Melbourne metropolitan areas are more likely to have a greater variance in land/house costs than other areas in Australia. This variance can be significant. The Review notes that while the increases to location factors for these Sydney and Melbourne areas recommended above are unlikely to completely overcome these cost differentials, they will shift the balance to allow for construction in significantly more locations within the SA4s, increasing participant choice and reducing the impacts of moving on formal and informal support networks and social connections.

# Construction costs

Several submissions argued that the Fully Accessible and Robust design categories did not provide as attractive an investment, in terms of rates of return, as the High Physical Support design category. Some providers also offered the Review access to commercial in confidence analysis of their rates of return on existing and proposed projects. The Review has considered these submissions in great detail and has a number of concerns with both the nature and size of assumptions for various cost categories in these submissions. The fundamental question for the Review is not, however, the rate of return on investment that providers are currently generating on each design category, but rather whether the current rates of construction in each design category meet future demand.

The Review concluded that current construction may not be diverse enough to meet future demand. In particular, insufficient Fully Accessible and Robust dwelling are currently being built. At the same time, High Physical Support dwellings and Improved Liveability dwellings are currently being constructed at high rates.

It should be noted that the demand analysis on which this review has relied is based on limited data, and as SDA is available as a support to anyone who is eligible, the picture is highly likely to change as better participant demand data becomes available.

Given the limitations of the demand analysis, it is therefore necessary to look at currently available information on projects that are underway to try and gain an insight into where the market is heading. Survey results from Summer Foundation’s ‘[Specialist Disability Accommodation – Supply in Australia](https://www.summerfoundation.org.au/documents/specialist-disability-accommodation-supply-in-australia/)’ report suggests that “while just 20% of New Build SDA stock enrolled with the NDIA [as at date of publication] is High Physical Support, over 60 per cent of stock in the pipeline is High Physical Support”.

There is no evidence that the current price caps for High Physical Support dwellings and Improved Liveability dwellings are too high, and, in any case, a commitment has been made not to reduce price caps. The only option to increase supply of Robust and Fully Accessible dwellings is, therefore, to increase the price caps of those building types by a sufficient amount to make it more attractive to providers to build those types of dwellings.

Industry stakeholders consistently noted issues with the base assumptions for Fully Accessible dwellings. They claimed that the construction cost of Fully Accessible were similar to High Physical Support as developing dwellings to the same design specification (particularly for apartments) reduces vacancy risks. Fully Accessible dwellings were often ‘blended in’ with other design categories – for example by placing 25 per cent Fully Accessible dwellings within a project made up of 75 per cent High Physical Support. However, the payment for Fully Accessible is approximately 60 per cent lower than High Physical Support. This meant that the payments for Fully Accessible are often not high enough (relative to its cost) to produce target rate of return of 11.6 per cent.

Industry submissions recommended that in order to improve the supply of Fully Accessible dwellings, the return should be similar to the current returns for High Physical Support, which would require an approximate 45 per cent increase in construction costs.

While this undersupply indicates an increase to Fully Accessible construction costs is necessary, the Review does not accept that the price increase needs to be as large as suggested by the industry. While the volume of construction is lower than anticipated, the fact remains that Fully Accessible buildings make up the second highest volume design category among new builds; indeed, the market is building roughly equal numbers of Improved Liveability, Fully Accessible and High Support dwellings, despite expectations that High Physical Support dwellings will have less eventual demand when compared to the other design categories (as per [NDIA Quarter 4 2018-19 Report to COAG](https://www.ndis.gov.au/about-us/publications/quarterly-reports), Table O.4 of Appendix A). So clearly, the current price caps must be modified to promote redistribution of SDA investment.

The Review also did not agree with all assumptions in providers’ models. Some designs and costings (both for construction and ongoing costs) did not necessarily align with expectations in the Agency’s cost model. The Review therefore did not agree with the scale of increases to assumptions suggested in all submissions.

That said, the Review’s own supply and demand analysis indicates that there is a need for higher rates of construction of Fully Accessible dwellings over time. Accordingly, a more modest increase to Fully Accessible construction costs assumptions is warranted to achieve this outcome. The increase should improve the attractiveness of the design category and assist in ensuring that Fully Accessible dwellings are being built at the rate necessary to meet future demand, while reducing the risk of undersupply.

There has only been a small number of Robust dwellings supplied in the market, which is generally consistent with the likely smaller demand for Robust-type dwellings. Industry submissions noted that this is due to each dwelling being unique and tailored to the individual needs of each participant. However, current rates of Robust construction are still too small to meet this modest demand.

The existing pricing and payments model wasn’t considered by industry stakeholders to be flexible enough to account for the differences between individual Robust-type dwellings. Further, providers argued that the model may not account for all costs, including the co-design phase upfront and additional construction costs incurred to tailor it to participant needs. However, due to limited experience with Robust-type dwellings, industry could not provide a significant amount of evidence regarding an increase in construction costs required to facilitate greater investment. It was noted that even a modest increase would provide greater support to industry.

**The Review therefore recommends that the NDIA should increase the construction cost assumptions for Fully Accessible and Robust dwellings by 16.0 per cent and 14.0 per cent respectively to stimulate supply (see Table 9).**

This translates into increases in the SDA price caps for Fully Accessible dwellings of between 10.1 per cent and 16.4 per cent and in the SDA price caps for Robust dwellings of between 9.4 per cent and 14.1 per cent (see Table 9 and Table 10).

The changes to location factors and cost assumptions recommended by the Review are designed to address pricing issues that could result in a lack of investment or undersupply in certain locations or SDA building types across the growing market. The recommended changes are considered those necessary in order to promote the objectives of the Review. They are not designed to benefit particular SDA investors or providers. Neither are they designed to benefit particular locations or building types, except to the extent that is necessary to incentivise a more equitable distribution of SDA.

**The Review further recommends that the NDIA should, in particular, monitor the supply of Fully Accessible dwelling placements ahead of the 2023 full Review of SDA Pricing Arrangements to ensure that the increases in price caps proposed by the Review are having the desired effect to stimulate supply.**

By this time, the Agency will have greater access to actual cost data on SDA dwelling, reducing the need to rely on its own and industry modelling.

Table 9: Recommended Adjustments to Base Construction Cost Estimates (2016-17 prices)

**Table 9.1 2016/2017 original construction cost assumptions**

|  |  | **BUILD COST no OOA** | | | | | **BUILD COST with OOA** | | | | | **+1 room** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Standard** | **Improved liveability** | **Fully accessible** | **Robust** | **High Support** | **Standard w OOA** | **Improved liveability w OOA** | **Fully accessible w OOA** | **Robust w OOA** | **High Support w OOA** | **Robust w OOA, +1 room** |
| Apartment | 1 | $374,283 | $380,330 | $574,959 | na | $838,715 | na | na | na | na | na | na |
| Apartment | 2 | $461,796 | $469,202 | $716,527 | na | $1,060,239 | na | na | na | na | na | na |
| Apartment | 3 | $590,865 | $600,448 | $928,588 | na | $1,406,490 | na | na | na | na | na | na |
| Villa | 1 | $218,052 | $222,357 | $334,942 | $402,669 | $519,682 | na | $254,890 | $369,184 | $445,260 | $564,743 | $481,082 |
| Duplex | 2 | $278,868 | $284,505 | $420,954 | $509,654 | $668,640 | na | $315,454 | $453,528 | $549,877 | $711,092 | $583,706 |
| Duplex | 3 | $364,623 | $371,798 | $552,033 | $674,227 | $890,075 | na | $402,033 | $583,853 | $713,371 | $931,343 | $746,293 |
| House | 2 | $304,493 | $308,593 | $445,554 | $545,529 | $705,540 | na | $339,541 | $478,128 | $585,752 | $747,992 | $619,581 |
| House | 3 | $383,073 | $425,098 | $625,833 | $755,715 | $1,070,988 | na | $458,981 | $661,484 | $798,970 | $1,120,945 | $835,354 |
| House | 4 | $574,790 | $586,065 | $830,719 | $992,352 | $1,367,945 | na | $620,164 | $866,596 | $1,035,595 | $1,417,556 | $1,071,970 |
| Group Accommodation | 5 | $625,268 | $636,543 | $917,417 | $1,094,956 | $1,523,852 | na | $669,757 | $ 952,367 | $1,136,948 | $1,571,895 | $1,172,270 |

**Table 9.2 Recommended changes to original construction cost assumptions ($ 2016/17)**

|  |  | **BUILD COST no OOA** | | | | | **BUILD COST with OOA** | | | | | **+1 room** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Standard** | **Improved liveability** | **Fully accessible** | **Robust** | **High Support** | **Standard w OOA** | **Improved liveability w OOA** | **Fully accessible w OOA** | **Robust w OOA** | **High Support w OOA** | **Robust w OOA, +1 room** |
| Apartment | 1 | $374,283 | $380,330 | $666,953 | na | $838,715 | na | na | na | na | na | na |
| Apartment | 2 | $461,796 | $469,202 | $831,171 | na | $1,060,239 | na | na | na | na | na | na |
| Apartment | 3 | $590,865 | $600,448 | $1,077,162 | na | $1,406,490 | na | na | na | na | na | na |
| Villa | 1 | $218,052 | $222,357 | $388,533 | $459,042 | $519,682 | na | $254,890 | $428,254 | $507,597 | $564,743 | $548,434 |
| Duplex | 2 | $278,868 | $284,505 | $488,306 | $581,006 | $668,640 | na | $315,454 | $526,092 | $626,860 | $711,092 | $665,425 |
| Duplex | 3 | $364,623 | $371,798 | $640,358 | $768,619 | $890,075 | na | $402,033 | $677,270 | $813,243 | $931,343 | $850,775 |
| House | 2 | $304,493 | $308,593 | $516,842 | $621,904 | $705,540 | na | $339,541 | $554,628 | $667,757 | $747,992 | $706,323 |
| House | 3 | $383,073 | $425,098 | $725,966 | $861,515 | $1,070,988 | na | $458,981 | $767,321 | $910,825 | $1,120,945 | $952,303 |
| House | 4 | $574,790 | $586,065 | $963,634 | $1,131,282 | $1,367,945 | na | $620,164 | $1,005,251 | $1,180,578 | $1,417,556 | $1,222,045 |
| Group Accommodation | 5 | $625,268 | $636,543 | $1,064,204 | $1,248,250 | $1,523,852 | na | $669,757 | $1,104,746 | $1,296,121 | $1,571,895 | $1,336,388 |

Table 10: Recommended Adjustments to SDA Price caps (2018-19 prices)

**Table 10.1 Adjusted Base Price per participant for NEW BUILDS excluding reasonable rent contribution ($ 2016/17)**

|  |  | **Improved liveability** | | **Fully accessible** | | **Robust** | | | **High Support** | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **No OOA** | **With OOA** | **No OOA** | **With OOA** | **No OOA** | **With OOA** | **+1 Room** | **No OOA** | **With OOA** |
| Apartment, 1 bedroom, 1 resident | | $33,784 | $39,415 | $54,548 | $63,640 | na | na | na | $70,483 | $82,230 |
| Apartment, 2 bedrooms, 1 resident | | $40,222 | $46,926 | $66,445 | $77,519 | na | na | na | $87,696 | $102,311 |
| Apartment, 3 bedrooms, 2 residents | | $20,996 | $24,496 | $38,264 | $44,641 | na | na | na | $53,540 | $62,463 |
| Villa, 1 bedroom, 1 resident | | $23,794 | $26,316 | $36,676 | $40,361 | $43,218 | $47,722 | na | $48,843 | $53,024 |
| Duplex/townhouse, 2 residents | | $14,893 | $16,077 | $22,694 | $24,484 | $27,085 | $29,257 | $1,827 | $31,235 | $33,246 |
| Duplex/townhouse, 3 residents | | $12,164 | $12,970 | $19,323 | $20,520 | $23,482 | $24,929 | $1,217 | $27,421 | $28,759 |
| House, 2 people | | $21,749 | $22,934 | $29,721 | $31,511 | $34,697 | $36,869 | $1,827 | $38,658 | $40,669 |
| House, 3 people | | $17,094 | $17,997 | $25,114 | $26,455 | $29,509 | $31,108 | $1,345 | $36,302 | $37,922 |
| Group accom, 4 people | | $15,064 | $15,742 | $22,567 | $23,591 | $26,689 | $27,901 | $1,020 | $32,508 | $33,728 |
| Group Accom, 5 residents | | $12,730 | $13,285 | $19,877 | $20,687 | $23,557 | $24,514 | $805 | $29,068 | $30,029 |

**Table 10.2 Adjusted base prices inc. CPI adjustment for inflation 2017/18 + 2018/19**

|  |  | **Improved liveability** | | **Fully accessible** | | **Robust** | | | **High Support** | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **No OOA** | **With OOA** | **No OOA** | **With OOA** | **No OOA** | **With OOA** | **+1 Room** | **No OOA** | **With OOA** |
| Apartment, 1 bedroom, 1 resident | | $35,149 | $41,007 | $56,752 | $66,211 | na | na | na | $72,844 | $84,984 |
| Apartment, 2 bedrooms, 1 resident | | $41,847 | $48,822 | $69,129 | $80,651 | na | na | na | $90,632 | $105,738 |
| Apartment, 3 bedrooms, 2 residents | | $21,844 | $24,496 | $39,810 | $46,444 | na | na | na | $55,310 | $64,528 |
| Villa, 1 bedroom, 1 resident | | $24,755 | $27,379 | $38,158 | $41,992 | $44,964 | $49,650 | na | $50,604 | $54,953 |
| Duplex/townhouse, 2 residents | | $15,495 | $16,726 | $23,611 | $25,473 | $28,179 | $30,439 | $1,901 | $32,338 | $34,430 |
| Duplex/townhouse, 3 residents | | $12,655 | $13,494 | $20,104 | $21,349 | $24,431 | $25,936 | $1,266 | $28,396 | $29,788 |
| House, 2 people | | $22,628 | $23,861 | $30,922 | $32,784 | $36,099 | $38,358 | $1,901 | $40,051 | $42,143 |
| House, 3 people | | $17,785 | $18,724 | $26,129 | $27,524 | $30,701 | $32,365 | $1,399 | $37,618 | $39,303 |
| Group Accom, 4 people | | $15,673 | $16,378 | $23,479 | $24,544 | $27,767 | $29,028 | $1,061 | $33,659 | $34,927 |
| Group Accom, 5 residents | | $13,244 | $13,822 | $20,680 | $21,523 | $24,509 | $25,504 | $838 | $30,117 | $29,909 |

**Percentage adjustments in price limits, 2018-19**

|  |  | **Fully accessible** | | **Robust** | | |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **No OOA** | **With OOA** | **No OOA** | **With OOA** | **+1 Room** |
| Apartment, 1 bedroom, 1 resident | | 13.9% | 13.9% |  |  |  |
| Apartment, 2 bedrooms, 1 resident | | 14.3% | 14.3% |  |  |  |
| Apartment, 3 bedrooms, 2 residents | | 16.4% | 16.4% |  |  |  |
| Villa, 1 bedroom, 1 resident | | 12.8% | 13.1% | 11.4% | 11.6% |  |
| Duplex/townhouse, 2 residents | | 12.8% | 13.0% | 11.4% | 11.6% | 14.0% |
| Duplex/townhouse, 3 residents | | 13.9% | 14.0% | 12.2% | 12.3% | 14.0% |
| House, 2 people | | 10.1% | 10.4% | 9.4% | 9.6% | 14.0% |
| House, 3 people | | 11.9% | 12.1% | 10.7% | 10.9% | 14.0% |
| Group Accom, 4 people | | 13.3% | 13.4% | 11.7% | 11.8% | 14.1% |
| Group Accom, 5 residents | | 14.1% | 14.1% | 12.3% | 12.4% | 14.0% |

# Monitoring of the SDA market through the NDIA’s Market Enablement Framework

The [NDIS Market Enablement Framework](https://www.ndis.gov.au/providers/market-information#market-enablement-role-of-ndia-as-market-steward) was published in October 2018 and describes the NDIA’s market stewardship role. This role includes monitoring, evaluation, oversight and, where necessary, intervention. The vision of the NDIS is to build a competitive and contestable marketplace that is flexible and responds to the choices and preferences of participants.

**The Review recommends that the NDIA should monitor the impact of location factors on supply and the distribution of SDA design category supply, through the NDIA’s Market Enablement Framework, to ensure that any remaining or emerging problems with location factors or cost assumptions are identified and appropriate actions taken.**

The NDIA will enhance its monitoring activities within the Market Enablement Framework. As part of this process, the NDIA welcomes any information from participants and the market more broadly regarding matters that may require investigation. The monitoring function will be performed primarily by the NDIA Market, Providers and Sector Development Group.

### Focus areas for monitoring

Location factors and construction cost assumptions will remain focus areas for monitoring following this review.

As noted in this report, analysing location factors will need to be monitored to ensure adequate supply is present across Australia encompassing metropolitan, regional, rural and remote locations.

Design category supply will also be closely monitored to determine whether the spread across the SDA design categories is progressing appropriately.

### Key activities

While analysis of the market has been performed to date, a number of key activities to expand and formalize this work is proposed following from this Review as described below. These activities will help to ensure that any new issues that arise during the development of the market are appropriately addressed, and assist in analysing whether the pricing increases recommended from this Review are having the desired effect.

These activities are:

* continued provision of further data to the market
* establishment of new data sets to support market oversight and growth
* research and analysis under the SDA Innovation Plan
* provision of further market information and signalling resulting from monitoring
* pricing interventions to address emerging issues:

### Continued provision of further data to the market

The NDIA has been progressively releasing more SDA data through an Appendix to the Quarterly Report.

The first release of data occurred in October 2018, and was focussed on supply information, including SDA dwellings enrolled by location. Since then, the data has been expanded to include numbers of SDA and SIL participants by region, SDA enrolled dwellings by type and maximum capacities for enrolled SDA dwellings, amongst other things.

The NDIA recognises that monitoring and promoting the growth of the SDA market will be facilitated through the provision of data to the market and the continued establishment of new sets of data.

Current projects underway include:

* Finalisation of work to publish the SDA dwelling database (minus addresses) to the NDIA website quarterly, to provide even more visibility of SDA supply.
* A final update will allow for sharing of more granular data regarding participants with SDA in their plan by SDA type and location. This later dataset requires improvements to the NDIA’s CRM system for extraction on a regular basis, which are being progressed with the relevant government departments.

Release of these sets of data will provide the market with a much clearer picture of SDA demand, enabling investment decisions to be made with more confidence. It will also provide the NDIA with an important tool with which to compare supply information, to determine whether actions are necessary to ensure SDA supply and demand are correlated across Australia.

The NDIA is working on delivering reporting functionality on these datasets as a priority.

### Third-party certification process and the analysis of the SDA development pipeline

A further activity to be undertaken as part of the NDIA’s monitoring functions will be the establishment of a new dataset from the implementation of the third-party certification process that is part of the soon-to-be released SDA Design Standards.

The third-party certification process will involve independent assessment of SDA dwellings against the NDIA’s Design Standards. Pre-certification enables providers to have their projects certified at the design stage, subject to a final assessment on dwelling completion.

Pre-certification offers the opportunity for the NDIA to collect data about the number and nature of projects that are in the pipeline for SDA and will provide an important picture of *future* supply.

This dataset will enable to the NDIA to monitor locations for upcoming projects and determine earlier whether any actions should be taken for locations with a lack of supply.

### Review of actual construction cost data

While the SDA market is moving towards maturity, its newness presents challenges for the NDIA in conducting its market stewardship role. Data upon which to base pricing or policy decisions is only just beginning to become available that is of the quality and quantity necessary. Further data sets will be required as the market matures in order to aid any decisions, as well as to provide additional points of reference for validation of existing data.

The NDIA will be scoping a process for the collection of actual construction cost information for projects that have been completed. This may occur as part of the established dwelling enrolment process.

This information will allow for accurate pricing to be accomplished that supports investment at the rate and scale necessary to meet future demand. Such reporting would need to take into account of commercial sensitivities, and be done in a way that does not create an unnecessary burden to stakeholders.

Reporting of actual construction costs will allow the NDIA to more accurately reflect costs in its pricing models, and will assist in the identification of any areas where assumptions are not matching real-world costs.

This approach will be discussed and developed in consultation with the SDA Reference Group.

### The SDA Innovation Plan

The SDA Innovation Plan initiates a program of work to enable SDA innovation over the next 12 to 18 months, which will include commissioned research, and gathering of participant preference data.

Work under the SDA Innovation Plan will contribute to the NDIA’s understanding of the market and allow for the targeting of oversight activities to promote innovative approaches to SDA and respond to future challenges.

The NDIA will consider release of data obtained through activities under the SDA Innovation Plan as these datasets become available and mature.

### Market information

**Market information under development**

The NDIA is developing further information for the market regarding the NDIA’s SDA price modelling. This information is in draft and will be provided to the NDIA Pricing Reference Group for feedback ahead of public release. The SDA Reference Group may be consulted about the product once it has been approved by PRG. This information sets out information about costing assumptions and other matters that go into determining SDA prices.

**Annual statement of SDA market monitoring**

The NDIA will also develop a statement annually regarding any challenges or opportunities that have been detected as part of its monitoring role. This statement will not replace other, regular information that is provided to the market but instead provide an outline of monitoring undertaken through a 12-month period and provide NDIA commentary on SDA market signs.

This statement may include, for example, signalling if evidence is growing that suggests an undersupply in particular locations or design categories.

These first of these statements will be released within the 12 months following from this Review.

### Future limited price reviews

As envisaged in the KPMG Review, the NDIA will also be open to conducting future limited price reviews should particular issues be identified and an intervention is required in order to promote the growth of the SDA market across the various design categories and locations around Australia.

Any adjustments to pricing through future reviews will occur at the conclusion of each financial year for application in the next SDA Price Guide.

Consistent with both the Market Enablement Framework and the SDA Pricing and Payments Framework, adjustments to pricing will occur if they are necessary to address a significant market issue and there will be no reduction in prices as part of a limited review process.

# Other issues

## Other cost assumptions

### Median land value assumption

The current approach uses Valuer-General data complimented with other information to determine median land values as part of the SDA cost equation. Some submissions made the point that median land value vary significantly within an SA4, and may not reflect the actual cost, particularly in inner city areas. However, there is currently no other database with the transparency, familiarity and coverage as the Valuer-General data. In the future, the NDIA may consider areas where the Valuer-General data could possibly be less accurate (e.g. possibly higher transaction areas) and attempt to formulate alternative approaches for these areas.

### Property management costs

A number of submissions argued that the current assumptions for maintenance costs in robust dwellings were lower than what should be expected considering the category is designed for participants who may have behaviours of concern, including through property damage. They argued that maintenance costs for Robust asset types were higher than other asset types due to the high upfront additional capital investment required and the greater frequency of damages that may be incurred (e.g. broken windows, damage to walls). However, Robust asset types also utilise stronger materials by design which may reduce the need for structural maintenance in the long run. Moreover, no submissions were able to specify the additional impact, and management and maintenance costs are considered to be broadly consistent with industry benchmarks.

On balance, the Review therefore considered that, given the variable nature of Robust client needs and requirements, the current mechanism for Extraordinary Reactive Maintenance payments is deemed appropriate. Extraordinary Reactive Maintenance payments were specified in the NDIA’s Decision Paper relating to SDA Pricing and Payments. The payments would involve a mechanism for payment for actual costs incurred for maintenance over and above what is reflected in Robust pricing. The NDIA acknowledges, however, that this policy is currently underdeveloped. The NDIA will work to implement an Extraordinary Reactive Maintenance payments policy and consult with stakeholders to inform its implementation. Additional work should aim to improve the understanding of the Extraordinary Maintenance payments provisions once developed, including how to apply for it and what and how much it covers.

### Vacancy management costs

Some submissions argued that the current vacancy management cost assumptions were too low, particularly for asset types with greater level of modifications (e.g. Robust), which would take longer to find a participant. However, the Review considers that the current vacancy management cost is consistent with industry benchmarks and there is little additional evidence to suggest that the allowance is insufficient. The Review also notes that the NDIA has improved and will continue to improve its process for enrolling new dwellings, which should reduce vacancy risks.

### Financing assumptions

As SDA is a relatively new market (in comparison to markets with some similarities like aged care) some submissions argued that greater levels of equity (which is more expensive than debt) are required in order to finance SDA dwellings. These submissions argued that the existing assumed debt to equity ratio (60 per cent / 40 per cent) was determined based on a review of benchmarks used for other long-term asset types and that these benchmarks were not appropriate. On balance, the Review did not consider that this assumption requires revision at this time. However, this issue could be reconsidered at the next SDA pricing review, by when there will be more evidence.

Some submissions noted a mismatch between the frequency of price reviews (every five years) and the long-term investment horizon and that this opens the industry up to financing risks. However, it is common practice for price reviews to occur periodically in other industries with regulated prices. This also serves as an important mechanism for ensuring the price reflects efficient costs and is providing the right incentives to deliver on the SDA program. The Review considers that there appears to be little downside risk for providers from five yearly reviews. The Agency is unlikely to reduce price caps in real terms for existing dwellings. Conversely, if reviews were less frequent, providers may lose out in real terms as price caps were not indexed for wage and price inflation. On balance, the Review does not consider that this assumption requires revision at this time because financiers can factor these risks into their analysis before investment.

## Other issues

### Barriers to families wishing to live together

The Department of Social Services and the NDIA continue to work on reducing any barriers for participants residing in SDA with non-participants. The work at this stage involves questions of policy and legislation that must be resolved before any required pricing changes can be considered. While the Review identified pricing areas that may need adjustment, such adjustment was not within scope for the Review until necessary changes to the SDA Rules and related policies was completed.

### Challenges to Improved Liveability classification within the National Construction Code

One stakeholder raised concerns around the classification of Improved Liveability dwellings under the National Construction Code, noting that Class 3 compliance may be required in order for dwellings to be compliant, which raises costs. The NDIA is investigating this matter, however there is currently insufficient evidence to support pricing changes as part of this review.

### Transparency of pricing and price reviews

It is noted that a number of submissions raised concerns regarding the transparency of pricing and price reviews. Following the release the KPMG Review in 2018, the SDA Pricing and Payments Framework was updated to include additional guidance about limited reviews, including that they would not result in reductions to prices.

The NDIA is working on developing simple and clear guidance for the market regarding benchmark pricing development and the price review process. The SDA Reference Group will be consulted regarding this guidance material in 2019.