# *Disability Housing Futures Working Group*

## *Final Report*

## *February 2016*

Sponsored by the

National Affordable Housing Consortium

# *Key Findings and Recommendations*

***IT IS ESTIMATED THAT THE HOUSING NEEDS OF 35,000–55,000 NDIS PARTICIPANTS WILL REMAIN UNMET IN THE FIRST DECADE OF THE SCHEME***

Of 460,000 National Disability Insurance Scheme (NDIS) participants, approximately 110,000 are expected to seek to move from their current housing over the first 10 years of the NDIS. This includes people moving out of their parents' home (50,000), congregate accommodation (20,000), affordability stress in private rental (35,000) and homelessness (5,000).

It is estimated that social housing turnover will address the need for 30,000–40,000 NDIS participants (in addition to 60,000 who are already housed in social housing). It is also speculated that 15,000–25,000 people will be able to secure private housing without housing assistance. An additional 12,000 will be eligible for specialist housing funded by the NDIS. This leaves a gap of unmet need in affordable housing for an estimated 35,000–55,000 eligible NDIS participants.

Failing to address this gap will limit the capacity of the NDIS to meet its independent living and community participation objectives. It will also potentially incur additional costs for the NDIS to continue supporting people living in housing that is inappropriately designed or distant from their support networks.

Housing affordability is an acute issue for many people with disability. Research indicates a strong correlation between disability and poor housing outcomes. At full scheme, NDIS participants will represent only approximately 10% of all people with disability in Australia.

*The estimate of unmet need for affordable housing is35,000–55,000 NDIS participants. There is a much larger cohort of people with disability who will not qualify for NDIS packages, and many of these will be impacted by unsuitable or unaffordable housing.*

**Recommendation:**

Alternative housing assistance options should be developed for people with disability who will be ineligible for NDIS specialist housing. This includes improved access to social housing, co-investment opportunities for family members and charitable organisations, and shared equity home ownership.

Leadership on housing matters for all Australians with disability should be developed. This should consider the circumstances of people who fall outside the NDIS and social housing safety net.

***NEW HOUSING FOR 16,000 PEOPLE WITH VERY HIGH SUPPORT NEEDS IS REQUIRED WITHIN 10 YEARS TO MEET NDIS SPECIALIST HOUSING TARGETS***

The Productivity Commission estimates that approximately 28,000 NDIS participants will be eligible for specialist housing funded by the NDIS. Of those, 12,000 people living with high needs disability are currently in housing or living arrangements that are regarded as unsuitable. New specialist housing supply will be required to meet the needs of this cohort.
The remaining 16,000 people eligible for NDIS-funded specialist housing are currently living in mostly state-funded group homes. Detailed information about the condition of these dwellings is not available so, for modelling purposes, the maximum useful life of dwellings is assumed to be

40 years and it is estimated that these dwellings will need to be renewed at a rate of 4,000 per decade.

Therefore, to achieve the NDIS targets for specialist housing, new housing supply for 16,000 (12,000 plus 4,000) people will need to be delivered in the first decade from full national rollout. The task of rehousing people currently living in unsatisfactory housing and living arrangements is an urgent one. For benchmarking purposes, a review of the Social Housing Stimulus and National Rental Affordability Scheme programs shows that the first 16,000 dwellings were delivered through these programs within the first 5 years.

*Currently there is no published information about the number of dwellings to be delivered, the timeframes for delivery, or the action the National Disability Insurance Agency (NDIA) will take to ensure that the program is achieved.*

**Recommendation:**

A housing infrastructure program should be developed and published by 30 June 2016 and should provide a roadmap for the delivery of 16,000 dwellings by 2028 at the latest.

### *PROGRAM FUNDING WILL NOT ACHIEVE THE SPECIALIST HOUSING DELIVERY TARGETS*

Program funding is expected to be $700 m per annum; however, the cost of constructing 16,000 new specialist disability housing (SDH) units within 10 years will exceed this figure.

*Direct funding by the NDIA is unlikely to achieve the program specialist housing target numbers within the assumed funding envelope. Therefore, some additional form of capital finance will be required. Analysis suggests that a housing bond finance model would be an effective approach.*

**Recommendation:**

Consider funding options as an integrated part of the overall housing infrastructure program.

### *NFP ORGANISATIONS WILL HAVE A KEY ROLE IN SUPPLY OF SDH*

The market for specialist housing is very limited compared to the mainstream residential housing market. Consequently, it is not an attractive private investment product. Private developers, investors, and lenders are unlikely to invest at the scale needed to achieve the program targets. Not-for-profit (NFP) organisations are well placed to engage in this market; however, there are limits to NFP capacity to fund housing development at the scale required.

*Currently, NFPs do not have the capacity to collectively deliver housing or secure capital finance at the scale needed to meet the program targets. The thin market and constraint on alternative uses for SDH presents significant risks to the NFP sector.*

**Recommendation:**

The capacity of NFP organisations to meet the program targets is fundamental to the success of the program. Therefore, investment needs to occur in building the capacity of this sector.

#### ***IT MAY BE INEFFICIENT FOR NUMEROUS NFPS TO INDIVIDUALLY DEVELOP CAPACITY TO DELIVER THE PROGRAM***

There is a strong rationale to have a centralised procurement function that can develop best-practice delivery capacity, direct activity to priorities, provide value for money, and create transparency in the use of funds. This central body could incorporate NFP participation.

A central procurement body would have the added advantage of being able to facilitate and coordinate research, develop and apply best practice, and carry out program management to allocate resources efficiently. This would include weighing up conflicting demands about where best to locate housing and the types of designs based on cost, operational efficiency and consumer preferences. Such a body could be created within a hybrid organisational structure that would allow state agencies to participate directly. However, it is necessary to consider policy options to maximise consumer choice within a potentially less diversified system of providers.

*Replicating sophisticated property development functions in numerous small and large NFPs across Australia may be inefficient.*

**Recommendation:**

Investigation should be carried out into the efficiency and benefits of creating a centralised delivery function as opposed to a fragmented delivery system operated by numerous individual NFPs.

#### ***TENSIONS BETWEEN CONSUMER CHOICE AND PROVIDER CERTAINTY NEED TO BE RESOLVED TO ENABLE CAPITAL INVESTMENT AT THE SCALE REQUIRED***

The NDIS is founded on the principle of choice and control for people with disability over their funding. NDIS participants are free to transfer their funding from one service provider to another. This presents uncertainties and risks to housing providers and significant barriers to capital borrowing.

*NFPs do not have the capacity to secure capital finance at the scale needed to meet the program. The NDIA Specialist Disability Accommodation Pricing Framework (s 82) acknowledges this fundamental issue but there is no detail about how this conflict will be resolved.*

**Recommendation:**

Safeguards should be developed to ensure both choice and control for people with disability and reasonable levels of financial certainty for housing providers and lenders.

#### ***THERE IS INSUFFICIENT DATA, RESEARCH AND POLICY CLARITY ABOUT HOUSING FOR PEOPLE WITH DISABILITY***

There is a shortage of high quality data, research and policy clarity concerning disability and housing. This is critical given the amount of public money proposed to be invested. There are many scenarios can lead to poor outcomes, which stem from the quality of information available and which are all ultimately expensive. These include but are not limited to incorrect location, incorrect timing, incorrect design, miscalculated demand, mismatching to need, customer dissatisfaction, high operating costs, poor service efficiency, the cost of unnecessary future modifications, premature decommissioning and failure to meet program objectives.

*Lack of information will result in suboptimal outcomes and potentially significant financial and social costs.*

**Recommendation:**

A centre for excellence should be established to identify best practice in areas such as policy analysis, demand management and need analysis, architectural design and dwelling suitability, costs-in-use, and finance. The centre would carry out research and be a repository and point of dissemination of information about all aspects of housing for people with disability.

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# 1. Introduction

## 1.1. Background for DHF establishment

In 2013, the National Disability Insurance Scheme (NDIS) Act was established and bilateral agreements with trial sites were signed. The pilot phase commenced in July 2013 and the full scheme rollout will commence in July 2016 with completion due in 2019. The NDIS will increase the availability of individualised support funding substantially for people with disability and will see a major increase in demand for affordable, well-located and appropriately designed housing. At the same time, the NDIS could potentially be the catalyst for the most transformative growth in housing supply for people with a disability in decades.

The opportunities and challenges associated with the scheme have generated enthusiasm in the housing sector, and a number of private and public partnerships have been mobilised to address the housing needs of people with a disability. However, such initiatives have been inhibited by the absence of a robust analysis of housing demand flows and options for system response and a lack of policy clarity about the sources and forms of funding for housing.

The Disability Housing Futures (DHF) Working Group was formed as an independent expert group to explore the availability of innovative ideas, models and research on housing for people with disability, and to contribute new thinking and new modelling, and identify opportunities for a viable disability housing market under the NDIS. DHF does not advocate for any particular interest other than a commitment to the principles of choice and control and social inclusion for people with disability. DHF is not seeking funding or proposing projects.

The members of DHF are experienced, high profile industry leaders from policy, social and disability practice, planning, economics, academia and property backgrounds. A wide group of stakeholders has been engaged during this project to ensure that all DHF activities, communications, and efforts are collaborative and cooperative with the wider industry and community. DHF have identified opportunities that create a viable market for disability housing now and into the future.

Under the Terms of Reference, DHF members serve as individuals and the views expressed are not necessarily those of any entity that a member may be associated with. In addition, the views expressed in this report, and any other information produced by DHF, are not necessarily the views of individual members.

The following individuals are part of the DHF Working Group:

***Chair***
Mike Allen—former CEO of New South Wales Housing

***Members***
Carrie Hamilton—affordable housing finance expert and city planner with 20 years' experience in the US and Australia

Dr Ilan Wiesel—senior research fellow at UNSW, specialising in housing for people with disability

Dr Tom Alves—senior adviser with the Office of the Victorian Government Architect with interest in housing provision policy

Geordan Murray—housing economist at HIA with a considerable level of experience and skills in data/statistics collection, analysis and interpretation

Kate Finch—former advocacy projects manager with PWDA, working on social justice issues, including housing and living in the community

Mike Myers—managing director of NAHC with over 30 years' experience in social and affordable housing in the UK and Australia

Owen Donald—former chair of the National Housing Supply Council with substantial research and senior public sector experience

***Support***

Daniela Weatherill—project manager at NAHC with 15 years property experience in the private and not-for-profit (NFP) sectors in the UK and Australia, respectively

Graham Marshall—business development manager at NAHC with 20 years' experience in property development. Previously, general manager at AV Jennings Qld, Villa World and QM Properties

Lee-yun Chiang—Bond University student researcher

Tracey West—PhD candidate, research assistant and sessional lecturer/tutor at Griffith University, Gold Coast

DHF is sponsored by the National Affordable Housing Consortium (NAHC).

## 1.2. Terms of reference

The Terms of Reference for DHF have been designed to set out a process that will explore how an investment-driven model can achieve long-term best practice in meeting needs and providing effective market choice for people with disability. To reflect the research and findings of DHF, particularly in relation to the stakeholder analysis, the Terms of Reference have been marginally amended from the initiation of the DHF Working Group.

The Terms of Reference are as follows:

I. To assess the impact of the NDIS on housing demand and identify capacity and shortfalls within the existing housing system to meet demand

II. To identify the social and economic benefits for Australia arising from investment in housing supply for people with disability

III. To identify, assess, and recommend practical methods to maximise the benefits from the NDIS user cost of capital (UCC) funds available to create and sustain housing opportunities for people with disability

IV. To identify the type of partnerships and governance arrangements between government, industry and communities that will be required to meet the objectives above

The analysis in this report is limited in scope and concerns only a small proportion of all people with disability in Australia. The financial modelling is focused on UCC funding for which less than 1% of all people with disability in Australia will be eligible. The modelling of housing demand concerns all people with severe or profound disability (as proxy for future NDIS participants), but even this group represents only 10% of all people with disability in Australia. Further research is urgently needed to address housing policy options for the larger group of people with disability (90%) who will not be eligible for NDIS assistance; however, this is beyond the scope of this report.

## 1.3. Guiding principles

Historically, housing solutions have often been imposed on people with disability who were compelled to live in congregate facilities that have segregated them from the community (Australian Government, 2010). For this reason, the analysis in this report is underpinned by a commitment to the following principles:

**Choice and control**—People with disability have the right to choose where they live and with whom. It is acknowledged that housing choices will inevitably be limited and trade-offs will be required, depending on people's financial circumstances, market supply and assessments by the National Disability Insurance Agency (NDIA) of 'reasonable and necessary' funding entitlements.

**Social inclusion**—People with disability have a right to non-institutional, non-congregated and non-segregated housing in the community. The research evidence is clear that smaller-scale, non-congregated housing dispersed in the community is a fundamental condition for the social inclusion, self-determination, and wellbeing of people with disability (Walsh et al., 2010; Mansell and Beadle-Brown, 2009; Kozma et al., 2009).

## 1.4. Overview of report

The remainder of this report is structured as follows:

Chapter 2 provides the policy context for analysis. It reviews secondary data on housing affordability, housing assistance provisions, and the implications for people with disability. It also presents available information about the NDIS and its potential impact on housing demand and supply.

Chapter 3 addresses Term of Reference 2 and considers the benefits of investment in affordable housing supply for NDIS participants as a form of insurance for all of Australia, as the fulfilment of Australian Government obligations under the United Nations 2006 Convention on the Rights of Persons with Disabilities (CRPD) and the National Disability Strategy (NDS), and as a cost-beneficial investment strategy that would reap various social and economic benefits for people with disability and the Australian society as a whole.

Chapter 4 addresses Term of Reference 1 and develops a more detailed projection of the implications of the NDIS on housing demand, the housing transitions that are likely to occur, the capacity of the existing housing system to meet demand, and the expected gaps in supply that will need to be addressed.

Chapter 5 addresses Terms of Reference 3 and 4 and offers detailed financial modelling to examine optimal use of the NDIS UCC funds in creating sustainable housing opportunities for people with disability. The chapter considers optimal partnership and governance arrangements between government, industry, and communities to meet these objectives.

# 2. Policy context

## 2.1. Housing policy context

### 2.1.1. Affordable housing supply and affordability in the private sector

The decline in housing affordability in recent decades has affected Australians of all abilities. The market currently does not produce an adequate supply of affordable housing, which is fundamentally due to the cost and availability of land, as well as construction and finance costs.

It is generally accepted that a household is experiencing housing affordability stress (30/40 rule) if housing costs exceed 30% of a low-income household's (households with the lowest 40% of income) gross income. Although average rental affordability remains below 30% across all states, those households falling into the lowest 40% of income distribution consistently face affordability stress. Affordability stress affects all regions of Australia—including all cities and all regional areas—with non-family households suffering the most. In the worst cases, non-family households are spending more than 60% of their income on housing. Low- and moderate-income households are increasingly locked out of inner cities (Rental Affordability Index, 2015).

A recent study by Anglicare Australia (2015) included a snapshot survey of 65,614 rental properties across Australia, which revealed a major shortfall in supply of affordable housing. The study shows that, despite an increase in properties available in the private rental market in 2015, low-income households relying on government payments and the minimum wage have insufficient means to cover costs in the Australian rental market. Less than 1% of the listed 65,614 properties rated as suitable for a single-income-support recipient. Only 2.3% were suitable for a single person on minimum wage and 3.3% for a single parent with two children on minimum wage. Couples in work fare better in the rental market with 23.8% of properties suitable for a couple with two children on minimum wage. The same family composition on Newstart would have access to only 0.9% of the available listings.

Income inadequacy, high market rental costs and housing stock that does not match changing population needs have repeatedly been cited as barriers to secure housing and meaningful social participation, particularly for the least advantaged groups. As a result, many households are going into debt to pay bills, and basic necessities (such as food) are sacrificed to live close to jobs and essential services (Anglicare Australia, 2015).

#### 2.1.1.1. Housing assistance policy and programs

Most housing assistance programs in Australia are funded under the National Affordable Housing Agreement (NAHA, 2009) and associated National Partnerships between the Commonwealth Government, States and Territories. In 2014–15, NAHA and associated National Partnership payments totalled $1.96bn (Australian Government Budget, 2014–15).

*Social Housing*

In Australia, social housing consists of public housing, community housing, and state-owned and managed indigenous housing (SOMIH). Access to social housing is means tested and prioritised for people assessed as being in greatest need.

As at 30 June 2014, there were 427,600 social housing dwellings. Between 2007 and 2008 and 2013 and 2014, public rental housing stock reduced by approximately 5% and mainstream community housing increased by 46% (AIHW, 2015). In recent years, there has been an ongoing policy for governments to grow the community housing sector and transfer ownership or management of public rental housing stock to community housing organisations (Pawson et al., 2013).

Demand for social housing is greater than current availability. Australian Institute of Health and Welfare (AIHW) data shows that, at 30 June 2014, there were over 200,000 applicants on social housing waiting lists, including around 76,000 applicants who were categorised as being in greatest need. About 74% of new allocations for public housing and 56% of new allocations for SOMIH went to those in greatest need categories. Within these categories, 46% of public rental housing and 26% of SOMIH new allocations spent more than 2 years on a waiting list. Those with special needs also reported that a high proportion of new allocations spent more than 2 years on a waiting list, including 64% for public rental housing and 58% for SOMIH. Data on community housing allocations is not available.

*Commonwealth Rent Assistance (CRA)*

CRA is a supplementary payment to Australian residents who rent accommodation in the private rental market and community housing. It is not available for public housing tenants, offering states and territories an incentive to transfer public housing tenants to the community housing sector. To qualify, residents must be eligible for a social security income support payment. The payments are processed through Centrelink and, in June 2013, there were 1.3 million recipients.

*National Rental Affordability Scheme (NRAS)*

NRAS is a joint federal and state government scheme that offers annual subsidies for up to 10 years for investors to rent their new NRAS-allocated property to low- and moderate-income households at a discount of at least 20% below market rate. The scheme was introduced in 2008 and new applications were discontinued in 2014 when the current government cancelled Round 5. The scheme did not reach the target of 50,000 dwellings.

*Home Purchase Assistance*

Since the 1950s, a range of policies have been introduced in Australia to encourage home ownership for a broad range of households. These have included exemption from capital gains tax, programs offering discounted home loan interest rates, cash grants and tax exemptions for first home buyers, sales of public housing to sitting tenants, and development of low-cost housing by state land developers (Hulse et al., 2010, p. 10).

In the early 1990s, programs specifically designed to encourage and assist home ownership for low-income households have been eliminated in most states. South Australia and Western Australia remain the only two states offering Home Purchase Assistance (HPA) for low-income owners. Such programs include SharedStart (WA)—shared equity schemes to help low- to moderate-income earners buy a property or build a home—and Keystart (WA)—low-deposit home loans to eligible households unable to meet the deposit requirements from mainstream lenders. Nationally, the Indigenous Home Ownership Program (IHOP) provides affordable loans and related services to eligible Indigenous people to assist in the purchasing of housing.

### 2.1.2. Housing and people with disability

People with disability face a range of barriers in accessing suitable housing and experience poorer housing outcomes and more limited housing choices compared to other members of the community. Barriers to adequate housing for people with disability are found in both the housing system and the disability support systems.

A recent survey by the Every Australian Counts Campaign, which initiated the review of disability services by the Productivity Commission, has found that 41% of people surveyed considered housing as one of the top five key issues to be resolved under the NDIS.

*Housing System Barriers*
Low incomes associated with low rates of participation in paid employment limit housing options for people with disability. In 2012, labour-force participation of Australians with disability aged 15 to 64 was 53% and only 20% and 36% for those with a profound or severe core activity limitation, respectively, compared to 83% for those without disability (ABS, 2012). People with disability who are not employed often rely on the Disability Support Pension (DSP) as their primary source of income (in December 2015, the maximum DSP payable was $22,500 p.a.). As indicated by Anglicare (2015), less than 1% of suitable rental properties in Australia are available for rent at those levels of income. Consequently, most people in these circumstances will be paying close to 50% of their DSP plus CRA for one-bedroom dwellings in the private market.

Housing options in the private market are also limited by barriers, such as disadvantage or discrimination in competition over private rental properties (Wiesel et al., 2015). Housing choice for people with mobility restrictions is also limited by the shortfall in supply of accessible housing (Franz et al., 2014). Limited data is available about the existing supply of housing with accessibility features or functionalities in Australia (Bridge, 2005).

People with disability are over-represented in housing assistance programs. In 2012, approximately 250,000 people receiving the DSP also received CRA, representing approximately 21% of all CRA recipients (AIHW, 2013, p. 40). Nearly 160,000 households with a member with disability lived in social housing, representing approximately 40% of all households in social housing (ABS, 2011). Although over-represented in this housing tenure, it is nevertheless a viable option for only a small minority of people with disability (less than 12%), despite evident need.

*Disability Support System Barriers*
In addition to constraints within the housing system, limited access to and lack of choice about disability support services has limited housing options for people with disability.

In the absence of paid support, many adults with disability continue living with their parents, who act as primary carers. This is in contrast to the experiences of most young adults in Australia who leave their parents' home by their mid-20s. Using Survey of Disability Ageing and Carers (SDAC) 2012 data, Qu et al. (2012) identified more than 93,000 people with disability over 25 years of age living with parents (predominantly ageing parents).

People with disability who are able to secure paid support services are also extremely limited in their housing choices. Until the 1980s, institutional care was the major form of supported accommodation for people with intellectual or psychosocial disability. Since then, such institutions have been progressively closed or redeveloped and their residents rehoused. The implementation of deinstitutionalisation across Australia has been slow, haphazard and, as yet, incomplete with close to 4,000 people with disability in Australia still living in institutions (AIHW, 2014; Wiesel and Bigby, 2015).

The closure of most large institutions led to the establishment of alternative models of housing and support, most notably the group home (shared supported accommodation), typically housing between four and six people with extensive paid staff support. According to AIHW (2014, p. 51), in 2012–13, 16,433 people with disability (most with intellectual disability) lived in over 4,000 government-funded group homes across Australia. Outcomes for group-home residents in terms of engagement, choice, and participation are highly variable due to variation in the implementation of the model (Mansell et al., 2013).

As discussed in the following section, the NDIS is expected to address some of the disability support system constraints described above. More support funding will be available for people with disability, and such funding will no longer be restricted to particular forms of accommodation. Funding for home modifications will also improve access to accessible housing. However, most housing system barriers remain outside the scope of the NDIS.

## 2.2. NDIS

### 2.2.1. Background, objectives, and current state of play

The NDIS will see an increase in government expenditure on disability services from a total of $7bn in 2012–13 to $22.2bn in 2019–20, the first year of full rollout. The NDIS will be overseen by the NDIA reporting to all Australian governments. The NDIA will act as the assessor and funder of services but not their provider. State governments are also expected to withdraw from direct provision of disability services.

The core business of the NDIS is the provision of individualised funding for support for any Australian who has a permanent disability, requires ongoing support, and is aged under 65 when first entering the scheme. An individual support plan is developed with each participant, specifying which reasonable and necessary support services will be funded by the NDIS to help the participant achieve their goals. The NDIA expects 460,000 participants will be covered by the scheme at full national rollout in 2019–20.

The NDIS also includes an Information, Linkages and Capacity Building (ILC) scheme that targets all people with a disability (4 million) and their primary carers (800,000) and will fund programs promoting community inclusion and providing information and referrals to mainstream services.

### 2.2.2. NDIS impact on housing demand

The NDIS is expected to impact the lives of its participants in various ways, including the improvement of housing options. The availability of individualised support funded by the NDIS will enable eligible participants to move to housing of their choice. This includes people with disability moving from their parents' homes, from group homes, and from institutional or congregate accommodation to more independent living in the community (see Chapter 4 for detailed modelling of potential housing transitions).

By providing the equipment or support needed by some people to gain work, the NDIS is also expected to increase workforce participation rates among its participants, therefore, enhancing their housing options. National Disability Services (2013) estimates that the NDIS will support people with severe disability to enter into approximately 35,000 new full-time equivalent positions. However, it is expected that the majority of NDIS participants will remain in the low-income group and will require affordable housing.

### 2.2.3. NDIS role in housing assistance

Sections 7.19 and 7.20 in the NDIS (Support for Participants) Rules 2013 define the role of the NDIS with respect to housing infrastructure:

7.19 The NDIS will be responsible for:
(a) supports to assist a person with disability to live independently in the community, including by building their capacity to maintain a tenancy, and support for appropriate behaviour management; and
(b) home modifications for accessibility for a person in private dwellings; and
(c) home modifications for accessibility for a person in legacy public and community housing dwellings on a case-by-case basis but not to the extent that it would compromise the responsibility of housing authorities to develop, maintain and refurbish stock that meets the needs of people with disability; and
(d) user cost of capital in some situations where a person requires an integrated housing and support model and the cost of the accommodation component exceeds a reasonable contribution from individuals.

7.20 The NDIS will not be responsible for:
(a) the provision of accommodation for people in need of housing assistance, including routine tenancy support and ensuring that appropriate and accessible housing is provided for people with disability; or
(b) ensuring that new publicly-funded housing stock, where the site allows, incorporates Liveable Housing Design features; or
(c) homelessness-specific services including homelessness prevention and outreach, or access to temporary or long term housing for participants who are homeless or at risk of homelessness; or

(d) the improvement of community infrastructure, ie accessibility of the built and natural environment, where this is managed through other planning and regulatory systems and through building modifications and reasonable adjustment where required. (NDIS (Support for Participants) Rules, 2013, p.19)

The implications of these rules are that most NDIS participants will not receive direct housing assistance from the NDIS, other than one-off grants for home modifications in private homes.

*User Cost of Capital*

UCC was included in the Productivity Commission's (2011, p. 767) costings for the NDIS as housing-related costs for people with very high support needs (approximately 6% of all NDIS participants). UCC was costed as 12% of the average funding package for participants in this cohort on the basis of existing data on the capital costs of group homes. The Productivity Commission's total funding for participant accommodation support packages was sufficient for all 15,700 people currently living in supported accommodation. In addition, it was expected that the current stock of supported accommodation would need to increase by 12,000 places.

In December 2015, the NDIA made public the Pricing Framework for Specialist Accommodation, providing some initial indication on its approach to allocation of UCC. The framework document states that the NDIS will support innovative and sustainable specialist disability accommodation (SDA) that fosters choice and control, independent lifestyles, and inclusion in the community. The NDIA will develop benchmark prices for SDA by March 2016 and will review these prices every five years. The benchmark prices would be expressed as a price per participant and funding would be attached to a participant, however, may be paid directly to providers. When combined with resident contributions, the NDIS funding aims to cover the cost of providing, establishing, operating, and replacing specialist housing over its full lifecycle. The benchmark prices will be weighed against factors such as geographical location, number of bedrooms, and furnishings.

On various occasions, the NDIA has indicated its inclination to use UCC to subsidise new housing supply that is scalable, non-congregated, integrated in the community, in accessible locations, and innovative in design and technology. The NDIA has also expressed its preference for separation of housing ownership from the delivery of support services (Bonyhady, 2014).

# 3. A case for investment in housing for NDIS participants

## 3.1. An insurance for all Australians

*Most families and individuals cannot adequately prepare for the risk and financial impact of significant disability. The costs of lifetime care can be so substantial that the risks and costs need to be pooled. (Productivity Commission, 2011, p. 2)*

By establishing the NDIS, the Australian Government has taken an important first step in ensuring people with significant lifelong disability are offered the support they need to live an independent life of full participation in the community. Access to suitable housing is a critical condition for independent living and community participation and, yet, the insurance provided by the NDIS does not include assistance with the costs of housing. Investment in housing for NDIS participants is, therefore, a necessary extension of the collective insurance of all Australian citizens against the risks and costs of a significant disability.

The Australian Government is formally committed to the provision of adequate housing for people with disability. The right of people with disability to adequate housing has been recognised in the United Nations (2006) CRPD to which Australia is a signatory. In the CRPD, the right to housing is integral to the right to independent living and full inclusion and participation in the community. It specifies that people with disability should have the opportunity to choose where and with whom they live on an equal basis with others and have access to public housing programs. In Australia, the Council of Australian Governments (COAG) initiated the NDS (Australian Government, 2011), which complies with federal and state government obligations under the CRPD and which states that people with disability should have access to affordable and secure housing across all tenures.

## 3.1. Independent lives and social inclusion for people with disability

Affordable, well-located, and appropriately designed housing can achieve significant benefits for people with disability, including independence and social inclusion. The following case study from Wiesel et al. (2015) demonstrates these potential benefits:

Eden is a 35-year-old woman living in Sydney. She has an intellectual disability and requires support. Eden lived with her parents until her late twenties when she felt an increasing desire to move out and live more independently. She “wanted to get away from mum and dad”, as most young adults her age in Australia want. At first, she moved to a group home but described her experience there as “dreadful” and, after less than 6 months, moved back with her parents, adamant to move out again, but this time not in a group home or with other people but to her own home.

At the time, access to support funding for independent living and access to affordable housing were both highly constrained. Nevertheless, Eden successfully applied for a placement in the NSW Disability Housing and Support Initiative (DHASI) program, which provided her both the support necessary to live independently and a social housing placement.

Since the move, her wellbeing and health have significantly improved. She is in control of her home, her support services, and her own life. She has made friends with the local café owners and is a regular there, which makes her feel connected to the local community. She would like to stay in her home permanently and is particularly proud of her backyard garden.

Eden's mother commented: "Eden amazed us. She wanted to move out. She was excited to move out…what we're seeing is a constant development of her social skills, her literary and verbal skills, her ability to focus on what needs to be done…. She has a great life, which she loves. Living independently, she actually learned who she is. She likes her own privacy; she comes home and goes and sits in the garden with a cup of coffee. If I died tomorrow, I know she'll cope. She'll be devastated but not as devastated as she would have been 5 years ago when we'd just started this".

## 3.2. Cost effectiveness of investment in housing

Investment in appropriately designed and located housing for NDIS participants could achieve significant savings on the costs of paid disability support funded by the NDIS. The precise impact of housing design and location on support needs will vary significantly from one person to another, depending on multiple factors, such as their type and level of disability, their formal and informal support context, and their personal housing circumstances and aspirations (Carnemolla and Bridge, 2011).

Despite these differing factors, housing design and location can substitute significant amounts of paid support in a variety of ways:

- Housing that is designed to meet accessibility standards or to accommodate assistive technology can significantly reduce the need for paid support by improving independent mobility and self-care at home (Carnemolla and Bridge, 2011).
- The location of housing can improve access to informal support (i.e. unpaid support provided by family members or friends) to substitute paid support.
- Housing located close to shops and mainstream services also reduces the cost of taxis for any one of the 73,000 NDIS participants who, according to the Productivity Commission (2011), will not be able to use public transport.
- Housing arrangements, such as sharing or a key-ring model (where a number of separate housing units are located close by), can enable two or more people to pool their individual support funding packages and employ a shared support worker, significantly reducing costs.

The substitution of 5.5 weekly hours of paid support through housing design and location can fully offset the cost of an annual $10,000 supply-side housing subsidy—equivalent to an NRAS incentive. Housing design or location that substitutes two hours of paid support a week (or two weekly taxi trips) can fully offset the cost of a private rental subsidy of $72 per week (Wiesel and Habibis, 2016).

## 3.3. Social value through investment in housing

Public investment in affordable and appropriately designed and located housing can deliver additional social, economic, and health outcomes for NDIS participants, as well as local communities, if the concept of social value is embraced. In the UK, recent years have seen a shift towards a social value framework aimed at encouraging innovative ways of tackling social and environmental issues as the original capital market thinking is failing to keep up with the ever-growing gap between social need and governments' ability to meet these needs (Cohen, 2013). Within a social value framework, the lowest-price criterion is no longer the determining factor for the awarding of contracts and is replaced by the assessment of economic, social, and environmental benefits over the entire lifecycle of the relevant goods, services, or works. The expectation from social enterprises is to maximise benefit to the local community (Social Enterprise UK, 2012).

In the UK, a social value framework was adopted as a guiding principle for procurement of public services. The Public Services (Social Value) Act 2012 came into effect on 31 January 2013. Under this Act, public bodies are required to consider how the services they commission and procure might improve economic, social, and environmental wellbeing. Commissioners are required to factor in social value at the pre-procurement phase, allowing them to embed social value in the design of the service from the outset. The aim is to deliver public services in a way that provides maximum social benefits to local communities and cost savings to central government.

To date, the Act has delivered benefits both locally, through added social value, and nationally, through cost savings. Benefits for local communities include environmental improvements, private investment, youth and disadvantaged employment, training and local employment, and incorporation of local businesses into the supply chain (Cabinet Office, 2015)

The social value outcome that could be achieved under the NDIS, designed to further enrich the lives of its participants, is improved training and employment opportunities, health improvements, and social inclusion for people with disability. For example, an investment in appropriately located, designed, and managed housing for NDIS participants can include:

- improved physical and mental health outcomes (for example, through the reduction of domestic hazards and improved thermal comfort and access to natural light (Phibbs and Thompson, 2011)
- improved employment opportunities through security of tenure and access to jobs (Dockery et al., 2008, p. 74)
- reduced energy and water consumption through sustainable housing design (Gill et al., 2011)

In addition to direct benefits for NDIS participants, a social-value-driven investment in housing will deliver benefits for local communities. For example, the Croydon Council in the UK recently awarded a £150 million contract for housing repairs. Applying the social value framework approach, the Croydon Council secured the following social value commitments from contractors:

- *Support for local employment outcomes (supplier will provide apprenticeship opportunities, deliver careers advice in schools and offer work experience to NEETs and the long-term unemployed)*
- *Additional economic growth (supplier will offer mentoring and business support to SMEs in the provider's supply chain, as well as collaboration with social enterprises)*
- *Volunteering opportunities for staff, allowing them to contribute to local community projects (HM Government, Jan 2014)*

Like Croydon, other local authorities in the UK are using the Act to add social value to individual contracts, which has led to added value in specific areas, such as health or education. Improvements to the Act are being considered to promote a more holistic, rather than one-dimensional, understanding of social value (White, 2015).

# 4. Transitions forecast

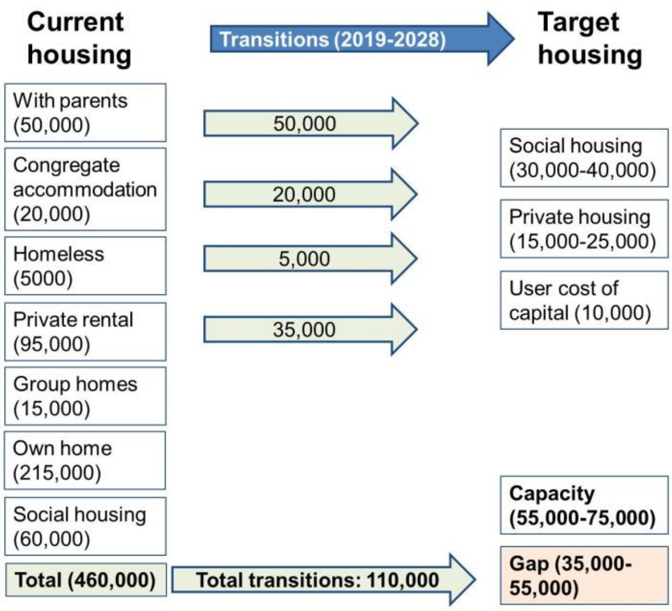
## 4.1. Overview of the forecast

This chapter identifies the current housing situation of people with disability who are likely to receive NDIS packages and their potential housing transitions over the first 10 years of the full scheme (2019–2028). The estimated numbers are based on available data on current housing, assessment of future flows of demand, assessment of capacity to meet demand within the existing housing system, and the gap in unmet need for affordable housing.

Overall, DHF's model estimates that, of 460,000 NDIS participants, approximately 110,000 will seek to move from their current housing or step out of housing affordability stress over the first 10 years of the NDIS. This includes people moving out of their parents' home (50,000), congregate accommodation (20,000), affordability stress in private rental (35,000), and homelessness (5,000). DHF's overall figure is consistent with the NDIA estimation of unmet need in affordable housing of 83,000–122,000 NDIS participants at full scheme (Bonyhady, 2014).

It is estimated that social housing turnover will address the need for 30,000–40,000 NDIS participants (in addition to 60,000 who are already housed in social housing). It is also estimated that 15,000–25,000 people will be able to secure private housing without housing assistance. An additional 10,000 will be eligible for specialist housing funded by the NDIS through UCC.

This leaves a gap of unmet need in affordable housing of an estimated 35,000–55,000 people. This cohort will require housing assistance in the form of rental assistance (over and above CRA) or access to new affordable housing supply (over and above existing social housing supply).



## 4.2. Analysis of current housing

The estimations on participants' current housing arrangements are based on Wiesel et al.'s (2015) analysis of ABS SDAC data. The 460,000 people in the group include people with severe or profound core activity limitation who are aged 25–64. To simplify the model, figures were rounded to units of 5,000 people. These data are used as proxy for the population of NDIS participants who may require affordable housing but do not represent an accurate projection of the full population of NDIS participants (which will include, for example, people under 25 years of age).

**People with disability and profound or severe core activity limitation, aged 25–64 years, by housing tenure (SDAC, 2012)**

| Housing tenure | Weighted population estimate | Weighted population % | Sample size |
|---|---|---|---|
| Owner without a mortgage | 107,360 | 23.1 | 340 |
| Owner with a mortgage | 109,889 | 23.6 | 332 |
| Renter—private | 94,272 | 20.3 | 273 |
| Renter—public | 62,799 | 13.5 | 203 |
| Renter—other | 41,275 | 8.9 | 115 |
| Rent—not applicable | 33,428 | 7.2 | 80 |
| Other | 4,266# | 0.9# | 10 |
| Special dwelling—other | 11,876 | 2.6 | 32 |
| Total | 465,164 | 100.0 | 1,385 |

Source: ABS (2012), Wiesel et al.'s (2015, p. 17) analysis of SDAC CURF data. Notes: # denotes estimate is likely to be unreliable due to small sample size and should be interpreted with caution. Housing tenure refers to the household in which the person lives and may not refer to the individual's own housing status.

**Housing tenure by relationship and household type, people with disability and profound or severe core activity limitation, aged 25–64 years, weighted population estimates (SDAC, 2012)**

| | Living with partner | Lone parent living with children | Adult living with parents | Other | Lone person house-hold | Group house-hold | Total |
|---|---|---|---|---|---|---|---|
| Owner without a mortgage | 78,542 | 5,760# | 3,191# | 3,558# | 15,095 | 1,214# | 107,360 |
| Owner with a mortgage | 85,315 | 10,149 | n/a | 2,523# | 9,531 | 1,877# | 109,889 |
| Renter—private | 41,727 | 14,255 | n/a | 4,762# | 23,831 | 7,303# | 94,272 |
| Renter—public | 17,573 | 10,422 | 2,494# | 4,407# | 24,154 | 3,749# | 62,799 |
| Renter—other | 4,561# | n/a | 18,576 | 5,975# | 3,187# | 5,261# | 41,275 |
| Other | 3,950# | n/a | 24,568 | 4,959# | 2,031# | 2,104# | 49,570 |
| Total | 231,668 | 44,382 | 51,719 | 26,185 | 77,827 | 21,508 | 465,164 |

Source: Wiesel et al.'s (2015, p. 26) analysis of SDAC (ABS, 2012) and authors' analysis of CURF data. Notes: # denotes estimate is likely to be unreliable due to small sample size and should be interpreted with caution. Housing tenure refers to the household in which the person lives and may not refer to the individual's own housing status.

*Data on Homelessness*

It is difficult to estimate the population of people who are homeless or experience unstable housing and will be eligible for an NDIS package. In the 2011 ABS census, of 105,237 people counted as homeless, 5,288 were categorised as having a need for assistance with core activities, thus likely to be eligible for NDIS assistance. This cohort of 5,288 included people living in improvised dwellings or sleeping rough (250), in supported accommodation for the homeless (1,500), temporarily with other households (800), in boarding houses (1,100), in other temporary lodgings (50), and in severely crowded dwellings (1,500).

According to AHIW (2014), an estimated 10,160 clients of specialist homelessness support reported they 'always/sometimes need help and/or supervision due to a long-term health condition or disability' in 2013–14. Of these, 42% were homeless before accessing specialist homelessness supports. The proportion of these that would be eligible for NDIS assistance and the number of homeless people, potentially eligible for NDIS, who have had no contact with specialist homelessness services remains unclear.

*Data on Congregate Accommodation*

It is estimated that a total of 20,000 people potentially eligible for NDIS assistance live in institutions (3,500), nursing homes (6,500), and other congregate care facilities (10,000). Data on people with severe or profound core activity limitation, aged 25–64, in congregate accommodation is very partial since their housing tenure is coded inconsistently and often vaguely. According to AIHW (2014), 14,429 disability service users live in boarding houses/private hotels; 9,207 live in non-domestic scale supported accommodation facilities; 447 live in hospitals, and 1,859 live in residential aged-care facilities (only 720 of those are over 65 years old). These data are not available by level of disability.

## 4.3. Affordable housing availability

*Social Housing Capacity*

It is estimated that approximately 30,000–40,000 new social housing allocations will be available to NDIS participants between 2019 and 2028, assuming no addition or subtractions to supply occur, no changes to allocation policies occur, and continuation or moderation of recent trends in new allocations remains.

Nationally, 35,000 new social housing allocations were available in 2011–12 (AIHW, 2014). If a similar number of allocations were delivered every year between 2019 and 2028 (the first 10 years of the NDIS national rollout), a total of 350,000 new social housing allocations would be available. However, the number of new social housing allocations has declined by 7.5% in the nine years leading up to 2011–12. If this trend of decline continues, the total number of new social housing allocations between 2019 and 2028 could decrease to 325,000.

People with severe or profound core activity limitation (25–64 year olds) currently represent close to 20% of all public renters. If 20% of all new social housing allocations between 2019 and 2028 were made to NDIS participants, it would involve an addition of 65,000 people with severe or profound disability in social housing—in effect doubling their proportion. This seems unlikely due to constraints associated with the nature of social housing stock (e.g. its location and design). Over-concentration of people with significant disability in social housing is also arguably undesirable. Therefore, for the purpose of modelling, a more conservative estimation of capacity in the social housing system is offered to accommodate 30,000–40,000 NDIS participants over the first ten years of the scheme.

NDIS participants are likely to be eligible and high priority in social housing allocations in circumstances such as: people moving from institutions, boarding houses, and other congregate care facilities; people forced to leave their parents' home in situations of crisis (such as illness or death of a carer); people moving from private housing due to financial stress, inappropriate housing, or tenancy risks; and people moving from situations of homelessness.

*Capacity to Affordable Housing in the Private Sector*

It is difficult to estimate the precise number of NDIS participants who may be able to move to private housing because limited data is available on two critical factors:

- Family capacity to provide financial assistance (income, wealth, health, and other financial commitments)
- Opportunities available for people with disability to share in private rental

It is, however, estimated that the majority of people in this cohort will not be able to afford private rental or home purchase. Hence, it is proposed that 15,000–20,000 will move to private housing, including people who move to their own homes with financial assistance from family, people who will overcome affordability barriers through sharing arrangements in private rental, and people who will secure affordable housing in the private market (e.g. in low-value regional housing markets). However, this estimation is highly speculative.

## 4.4. Transitions expected over 10 years

*Transition from Living with Parents*

Over 50,000 people with severe or profound core activity limitation are currently over 25 and living with parents. It is assumed that all 50,000 will transition out of their family home in the first 10 years of the scheme (at the end of which the youngest of this group will be 35 years old). This analysis has not taken into account those living with parents who are under 25 now but will turn 25 during the 10 years covered in the transition plan.

*Transition from Living in Congregate Accommodation*

Approximately 10,000 people living in congregate housing are likely to be eligible for specialist housing but will require new supply of such housing. With appropriate support, an additional 10,000 people living in congregate housing are expected to be able to access social housing.

*Transitions from Private Rental*

Approximately 95,000 NDIS participants are currently living in private rental. It is estimated that close to a third of these (30,000) are experiencing housing stress. According to SDAC (2012), 94,272 (20%) people with severe or profound core activity limitation live in private rental. The estimation that close to a third of those experience affordability stress is a conservative estimation based on three statistics. First, approximately 39% are lone person households (25%) or lone parents living with children (14%) and it can be assumed the majority of these are in affordability stress. Second, most private renters with severe/profound limitation (71%) have personal incomes below $580 p/w. Third, according to AIHW (2013, p. 40), 3 in 10 persons receiving the DSP were spending more than 30% of gross household income on rent after CRA. It is estimated that the majority (65,000) who are not in housing stress will remain in private rental.

*Transitions from Group Homes*

There is no reliable information on the number of people who may wish to move out of group homes. Overall, it is estimated that the total number of residents in existing group-home stock will remain steady. Where exits from group homes occur, it is likely that these will be replaced by others in high need from all other current housing origins. Overall, such transitions in multiple directions will offset each other.

*Transition from Homelessness*

People with disability experiencing homelessness, with appropriate NDIS support, should be able to access priority social housing.

*Transitions from Social Housing*

It is estimated that the large majority of those currently living in social housing will remain in social housing. It can be assumed that exits to other tenures will be offset by opposite movement into social housing.

*Transitions from Owner-occupancy*

For the purpose of modelling and in the absence of data, it is assumed that the large majority of those currently living as owner-occupiers will remain in this tenure. However, further research is needed to examine mortgage stress and risk of losing owner-occupancy due to ill health or other complications among people with disability.

# 5. Financial modelling

## 5.1. The SDH challenge

To meet the objectives of the NDIS, the funding model for specialist disability housing (SDH) must consider particular factors, including the target number of dwellings, the costs of universal housing design, other design requirements associated with SDH, the geographic locations of new supply (proximity to desired support services, etc.), and a provision for replacement of stock over time.

SDH design requires more floor area per occupant because bathrooms and kitchens are substantially larger than those in general accommodation. Soundproofing and design features, such as quiet zones, also add to overall cost. In addition, modern technologies, like sensor-operated sliding doors and lighting control from a handheld device, make life easier for people with disability. This technology can increase capital cost and has high depreciation and redundancy rates, but it can also lead to savings in the costs of paid support.

As a result, the costs of constructing SDH are higher than mainstream housing. Research shows that construction costs are 20% higher in metropolitan areas and 10% higher in regional areas (WT Partners, 2015). Therefore, if the median cost of buying a dwelling in an Australian city is $490,000, the cost of an equivalent SDH would be $588,000. If the median cost of a dwelling outside the city is $350,000, the equivalent SDH would cost $385,000.

In most cases, rental income generated from SDH is limited to 25% of the DSP and, where a dwelling is managed by the community sector, an additional income in the form of CRA. Thus, SDH is a very illiquid asset to own with a high risk-low return profile.

| Table 1: Estimated Weighted Average Cost of SDH Units | Sydney | Melbourne | Brisbane | Darwin |
|---|---|---|---|---|
| Location of Users of NDA Accommodation Support Services | 27% | 19% | 16% | 0% |
| Estimated Cost of 2-bed SDH Unit in 2019 | $619,080 | $443,520 | $425,040 | $364,980 |
| | Perth | Canberra | Adelaide | Hobart |
| Location of Users of NDA Accommodation Support Services | 10% | 1% | 13% | 3% |
| Estimated Cost of 2-bed SDH Unit in 2019 | $392,700 | $429,660 | $309,540 | $258,720 |
| Weighted Average Cost of SDH dwelling | $410,000 | | | |

Source: AIHW Report on Disability Support Services, Services Provided under the National Disability Agreement (2013–14)

Data for Table 1 above uses data for two-bedroom mainstream private housing because a typically 52 sqm one-bedroom apartment is not large enough to meet SDH requirements for a single person. Although more research is needed, it would appear that there is little difference in the overall cost of a two-bedroom private housing unit and an SDH with the same floor area. The assumption used in the analysis is that the weighted average estimated capital cost of an SDH is $410,000. Further analysis will be required to estimate the costs of group housing (two or more people), but anecdotal evidence suggests a similar cost per person (for housing only, excluding the costs of paid support).

## 5.2. Targets for the creation of new stock

As discussed in Chapter 2.2.3, the NDIS will fund:

- new SDH dwellings for 12,000 people who are currently in unsuitable housing and living arrangements
- maintenance of existing dwellings for 16,000 (rounded from 15,700) people who are currently in specialist housing.

For financial modelling purposes in this report, the following further assumptions have been made:

- The new SDH dwellings for 12,000 people will be provided in the first 10 years of the full scheme.
- As detailed information about the age of the 16,000 dwellings is not available, it is assumed they will be replaced at a rate of 4,000 every decade from commencement of the scheme.
- The cycle will be repeated after each 40-year period by decommissioning fully depreciated housing stock.

| **Table 2: Overall Program Workflow and Total Cost** | **Total** | **Y10** | **Y20** | **Y30** | **Y40** | **Y50** |
|---|---|---|---|---|---|---|
| | | | | *Decade ending…* | | |
| | | 2019 | 2029 | 2039 | 2049 | 2059 |
| New SDH Units | | 12,000 | | | | |
| *Programmed Renewal of Existing SDH* | | 4,000 | 4,000 | 4,000 | 4,000 | 16,000 |
| Renewal Workflow: Number of Units | | 16,000 | 4,000 | 4,000 | 4,000 | 16,000 |
| Capital Cost of Renewal | $18,040 | $6,560 | $1,640 | $1,640 | $1,640 | $6,560 |
| Capital Cost of Renewal with NFP Benefits | $15,400 | $5,600 | $1,400 | $1,400 | $1,400 | $5,600 |

Rehousing people with disability who are currently experiencing unsatisfactory housing and living arrangements is an urgent task. The suggested period of 10 years is considered a realistic minimum target for delivery based on the experience of other housing programs. The Social Housing Initiative (SHI) (KPMG, Sep 2012) represents the largest single commitment of funding to social housing in Australia's history. The Commonwealth Government provided funding of $5.638bn to the SHI over three and a half years (2008–09 to 2011–12). Of this, $5.238bn was allocated to the construction of new dwellings.

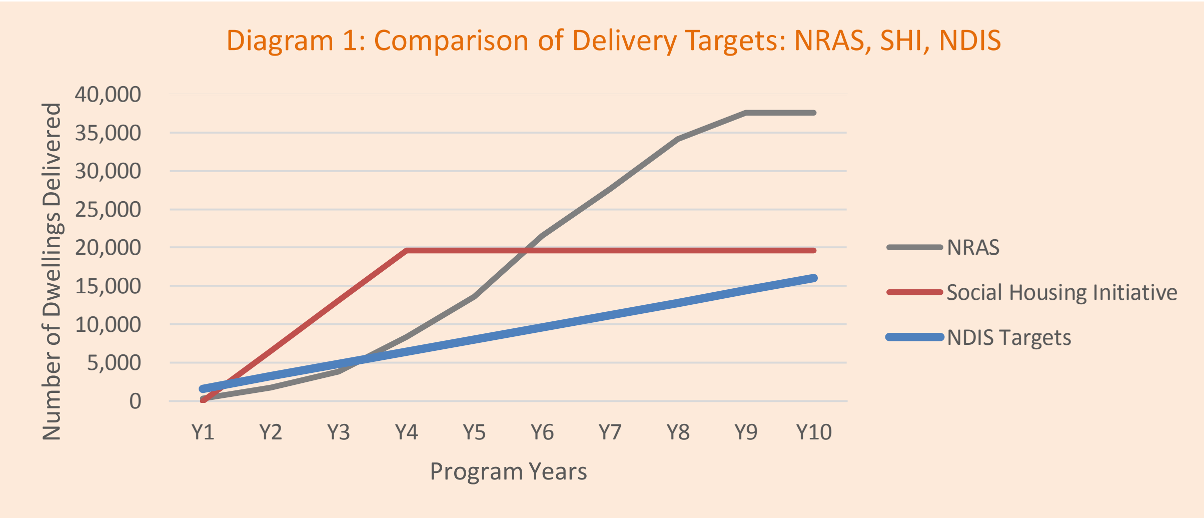
Key lessons drawn from the SHI are:

- The NDIS target of 16,000 in the first 10 years is less by comparison and achievable.

- Delivery was achieved through central agencies (state housing and public works agencies). Without their focus and capacity to drive the program, the targets would not have been met.
- In contrast to the SHI, the Home Insulation Program led to unplanned outcomes and damaged the sector (Hanger, 2014). The NDIS has the opportunity to avoid this mistake and engage with the private sector (builders, architects, NFPs, etc.) in the same way that the central agencies did under the SHI.
- Despite the unprecedented pace of the SHI, value for money and competitive construction pricing was achieved.

NRAS is on track to deliver 37,538 dwellings between 2009 and 2017 (Australian Government,d Jun 2015). This further confirms that the NDIS target of 16,000 in the first 10 years is achievable. The NDIS has the opportunity to take important lessons from NRAS:

- NRAS started slowly with Rounds 1 and 2 falling well behind expectations. The main reason for this was that it did not engage sufficiently with key development companies, finance, and investment stakeholders to ensure take-up of the concept.
- NRAS was intended to attract institutional capital (superfunds, etc.); however, this did not occur, which was also a consequence of inadequate consultation.

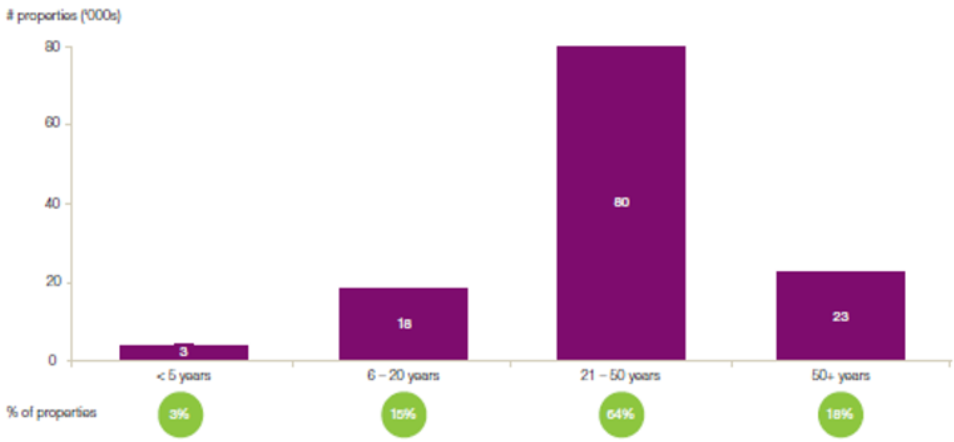



## 5.3. Replacement of fully depreciated existing stock

The costs of renewal of existing and new SDH stock are built into the financial modelling presented below. Lessons from the social housing system are relevant in this context. Delivery of social housing has not kept pace with demand over a long period and, as a result, the average age of the stock is now quite old. The system has gradually become less sustainable because older stock demands high annual maintenance costs and the slow rate of renewal results in functional redundancy (i.e. mismatching housing to demographic and geographic need over time, including disability design features). A discussion paper in NSW published the chart reproduced below, which is representative of most social housing portfolios in Australia. In NSW, the majority of stock is more than 20 years old and 18% is older than 50 years (NSW Department of Family and Community Services, Nov 2014).

The NDIS has the opportunity to plan for a portfolio that has roughly equal numbers of properties up to the age of 10, 20, 30 and 40 years, especially considering that the SDH dwellings will be subject to high wear and tear due to their intensive use and occupancy. This can only be achieved if full replacement funding of lifecycle costs and depreciation is designed into the system.

Figure 7: Age profile of LAHC owned dwellings, June 2014[93]



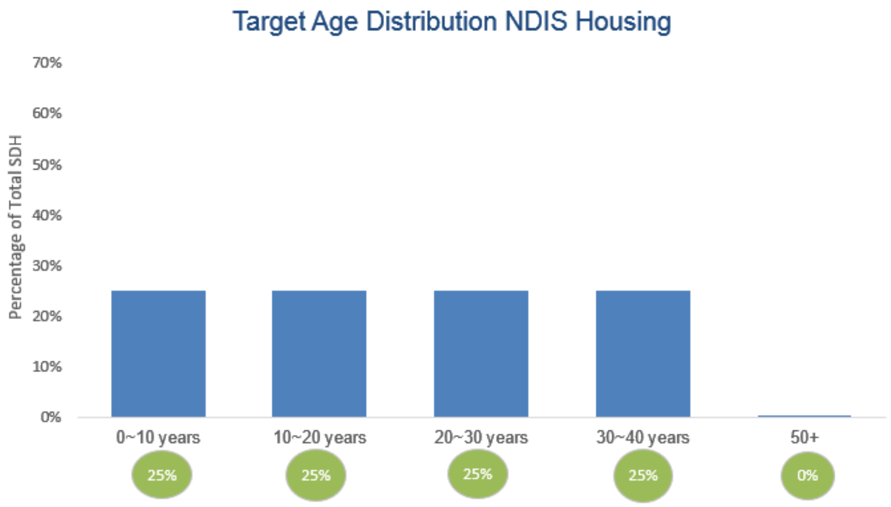
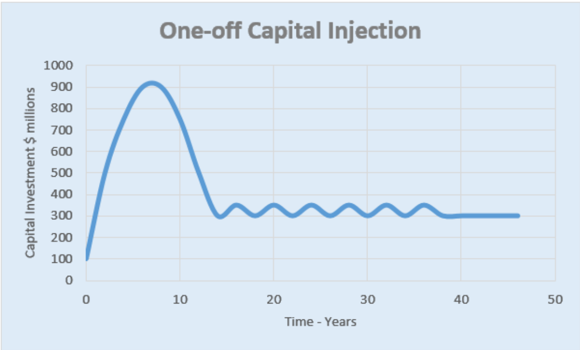




**Diagram 2 Target Age Distribution of NDIS Dwellings**

Renewal of SDH stock will require continual investment, as opposed to a one-off capital injection, like the SHI. This is shown in the following charts.





Charts are illustrative- not to scale

*It is encouraging that the SDA Pricing and Payments Framework issued by the NDIA takes depreciation (consumption costs) into account.*

## 5.4. Maintenance funding assumptions

Data on the expected maintenance costs of SDH is scarce, and the assumptions used in this paper have been taken from a combination of anecdotal evidence, review of individual projects, and the historic costs associated with public housing (for which there is some available data). The NSW Government has recently published a number of high quality documents including *Social Housing in NSW: A Discussion Paper for Input and Comment* (NSW Department of Family and Community Services, Nov 2014) and the New South Wales Auditor-General's Report *Performance Audit: Making the Best Use of Public Housing* (Audit Office of NSW, Jul 2013). The data for NSW is considered typical for Australia for the purpose of this report.

The Productivity Commission regards maintenance costs as 'costs incurred to maintain the value of the asset or to restore an asset to its original condition. The definition includes day–to–day maintenance reflecting general wear and tear, cyclical maintenance, performed as part of a planned maintenance program and other maintenance, such as repairs as a result of vandalism' (Australian Government, Jan–Feb 2015, p. 62).

The assumptions used in this paper are summarised in the following table:

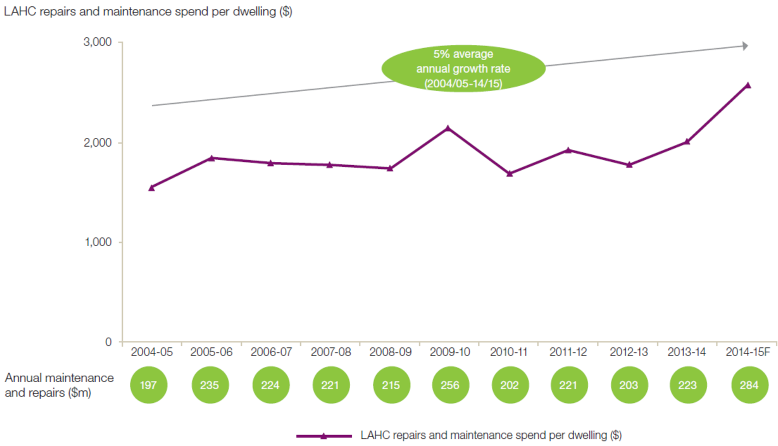
| Table 3: Assumed Annual Asset Maintenance Costs | Y1 | Y10 | Y20 | Y30 | Y40 |
|---|---|---|---|---|---|
| | Average $ per SDH unit per annum | | | | |
| Day-to-day | $2,500 | $2,500 | $2,500 | $2,500 | $2,500 |
| Cyclic or Planned | $9,100 | $5,400 | $4,400 | $4,800 | $2,500 |
| Annual Average Asset Management Cost | $11,600 | $7,900 | $6,900 | $7,300 | $5,000 |
| | $'000 per annum | | | | |
| Annual Total Asset Management Cost | $324,800 | $221,200 | $193,200 | $204,400 | $140,000 |

An explanation of the assumptions is as follows:

- Day-to-day maintenance includes ownership costs (e.g. rates, insurance, body corporate, if applicable) and services that are the landlord's responsibility, including a proportion of utility charges; fire detection and repair and replacement of trunk water, power, and sewerage pipes; and costs of keys, locks, window and door repairs, and some garden management, if not included in a body corporate or operations (e.g. storm damage or removal of large trees).

- Planned cyclic maintenance includes, for example, replacement of kitchens and bathrooms (maximum each 20 years), complete with fittings and equipment; floor finishes; and periodic internal and external painting.
- Asset management does not include structural replacement at the end of economic life (referred to in Section 5.3 above).
- Asset management does not include operational costs. For example, cleaning is not included.
- The annual cost, periodic replacement, and upgrade of assistive technology is attributed to operating costs. Some SDH currently under development include $60,000 in assistive technology. Equipment of this type will have short depreciation periods and high annual upkeep; however, these costs would be justified by reducing labour costs.
- Assumptions are consistent with costs reported by the NSW Department of Family and Community Services (Nov 2014, p. 40):

Figure 8: Maintenance spend per LAHC owned dwellings[94]




1. Maintenance expenditure excludes Nation Building Stimulus Economic Package and includes the State Acceleration program.
2. LAHC properties refers to dwellings owned and managed by LAHC and excludes residential properties leased by LAHC.

- There is an assumption that the average age of the portfolio will be balanced, as illustrated in 5.3 above, and that new SDH will apply best-practice design and specification, having regard for the full lifecycle of the housing. It is assumed that this will be enough to counter the trend in public housing for high increases in maintenance liability and that new SDH will be more efficient than existing SDH, thus, a drop in per unit cost over time.
- No attempt has been made to estimate the variance in maintenance costs across Australia; although, it is known that maintenance in rural and remote areas is higher than in cities.

Further research will be needed to validate these assumptions.

## 5.5. The UCC

The Bilateral Agreement between the Commonwealth and New South Wales for the transition to the NDIS provides a definition of UCC (Council of Australian Governments, 2015, Schedule J, p.2.):

*NDIS funding support = (asset base x cost of capital) + accommodation related operating costs + depreciation – land appreciation – resident contribution*

The SDA Pricing and Payments Framework allows for benchmark prices that consider a number of factors, such as geographical location, number of bedrooms, furnished or unfurnished dwellings, and any other factors determined necessary by the NDIA.

However, it is not clear how supply factors, such as charitable benefits and the tax position of various stakeholders, as well as technical innovation, will be treated under the SDA Pricing and Payments Framework.

Land is a significant component of total costs, and some states may have a policy of subsidising or gifting of land. Under the SDA Pricing and Payments Framework, such subsidising and gifting of land is likely to be treated as the state's in-kind contribution to the NDIS and the pricing, in that case, will be adjusted.

## 5.6. Understanding the roles of stakeholders

Potential stakeholders in this project include the private sector, institutional investors, NFPs, individuals/NDIS clients, the NDIA, the NDIA delivery group, and states and territories. Their likely roles and responsibilities are outlined below and summarised in Table 5.

**Table 5: The Roles of Potential Stakeholders**

| Stakeholder | Owner | Developer | Financier | Builder | Operation |
|---|---|---|---|---|---|
| Private Sector | × | × | ✓ | ✓ | × |
| Institutions | × | × | ✓ | × | × |
| Not-for-profit | ✓ | ✓ | ✓ | × | ✓ |
| Individuals | ✓ | × | ✓ | × | × |
| NDIA | × | × | ✓ | × | × |
| Delivery Agency | × | ✓ | ✓ | × | × |
| States & Territories | × | × | ✓ | × | × |

*The private sector*

The design of large public expenditure programs needs to involve effective consultation with the industry that is intended to deliver the program. Examples of ineffective consultation with suboptimal outcomes include:

- NRAS—this scheme was designed with insufficient consultation with banks, institutional investors, developers, and investors. Despite a good financial concept and a generous incentive, there was poor take-up of the first two rounds, and it was not until the third round that the scheme gained significant traction. Banks were wary of the product and institutions, such as superfunds, have not taken up the opportunity as intended.
- Nation Building and Jobs Plan (NBJP)—the NBJP created a valuable stimulus in response to the global financial crisis; however, there was little engagement with industry about how the stimulus would be delivered, how value for money could be achieved, and how quickly the funds could be utilised. As the Hangar Royal Commission into the Home Insulation Program concluded, better planning and engagement with the industry could have avoided some of these outcomes. (Hanger, 2014, p. 5)

*Ownership*
Because of the unique nature of the units, private investors are unlikely to invest in SDH dwellings. In addition, people with disability require long-term rental security, and this is contrary to the private rental market where a long lease is typically 12 months. There could potentially be a small market for philanthropic investment.

*Developers and Builders*
Developers will be unwilling to produce units on a speculative basis due to the specialist market, especially during times of economic uncertainty. If a high degree of pre-commitment is provided, the role of the commercial developer is not required. Developers have consistently resisted integrating specialist units into their developments, unless there is an incentive or regulatory requirement (e.g. inclusionary zoning). The reason for this is that a standard unit is more economical to produce, there is a wider market, and there are more options for the unit, which reduces risk (e.g. rental rather than sale, sale to overseas investor, home buyers vs. investment sales). The private sector is not expected to play a major role in the process, other than construction where it has proven performance.

*Financiers and Banks*
There is an established funding method between NFPs and commercial banks that is used for social and affordable housing projects. This formula could be used for the financing of SDH; however, the relatively small scale of the SDH program is problematic.

Banks will recognise that it is not practical to use NDIS units of this type as security because it is impractical to foreclose as mortgagee in possession. Accordingly, the real security of the loan is the cash flow that units of this type will generate. Most people with disability earn less than $30,000 per annum. Housing providers will need to create a pool of assets that can be used for security to create sufficient cash flow to underwrite loans. The pool will need to be large since a number of units will be 1 to 4 or 1 to 6, and the units used for security will need to be clear of any other loans or security.

Table 6 below shows an example of a $62,727 funding gap from its equity reserves:

| Table 6: Estimate of Equity Requirement for NFPs | |
|---|---|
| Weighted Average SDH Cost | $410,000 |
| *less* NFP Tax Advantage | $37,273 |
| Total SDH Cost | $372,727 |
| *less* Borrowing Capacity Based on Average UCC | $285,000 |
| *less* Reasonable Client Contribution | $25,000 (see Section 5.7) |
| Average Funding Gap/NFP Equity Contribution | $62,727 |

Based on 16,000 new SDH units in the first decade, the funding requirements are estimated at:

Debt: $ 4,363,000,000
Equity Gap: $ 1,003,632,000

Security: unencumbered dwellings used as loan security, average 5:1, based on cash flow:

Number: 80,000 dwellings

Based on the social housing formula, it seems unlikely that banks will advance such a high level of debt to NFPs. It is also unlikely that NFPs will collectively have this much free equity to invest or this many unencumbered properties under ownership to use as security. If the NDIA, the Commonwealth, or the states and territories were to provide guarantees, it would permit greater involvement; however, banks are reluctant to go into finance arrangements that rely heavily on third-party guarantors, rather than the capacity of the borrower.

*Operations*
The private sector has made progress in recent years into the delivery of human services in areas such as prisons, detention centres, aged care, and hospital care. There is room for greater private sector involvement in disability care; however, this is not expected to be a major growth area due to the desire to de-institutionalise and disperse the distribution of disability care centres. It appears more likely that private care will be closely associated with NFPs.

*Institutional Investors*
Institutional investors are not likely to directly own or finance SDH. However, they may engage in financing through bond buying (see Section 5.7).

### *NFP organisations*

*Ownership and Operation*
NFPs currently undertake a substantial role in the operation of disability services and this capacity is expected to underpin delivery. They are also likely to own a large portion of the stock because the potential for many NDIS recipients to borrow enough for full home ownership is limited, as many rely on the DSP and CRA. Also, it is highly unlikely that the private sector and institutions will seek to own SDH, as explored in this report.

*Development and Building*

The role of the developer is likely to be assumed by NFPs. While NFPs have developed significant capacity in recent years, they will face many practical difficulties with a program of this scale, particularly if they rely on commercial banks. Not only is the cost of constructing SDH higher than mainstream housing, due to the larger unit size and special fit-out required, but also considerable doubts about whether NFPs can obtain mortgage finance from mainstream banks on a case-by-case basis at the scale required exist.

The development capacity of NFPs has increased in recent years; however, this building program would represent a step-change in the capacity of NFPs. Building that capacity would take time and be a key area of risk. NFPs will carry out some asset management, but large-scale construction work is out of scope.

*Individuals*

Individuals, including financial support contributed by the family, are likely to have a significant role in the provision of disability housing, for instance, through shared equity home ownership and granny flats. However, these solutions are likely to apply to people with a lower disability level than the cohort that will be eligible for specialist housing funded by the NDIS.

*NDIA*

The NDIA has made clear statements that it will fund but not participate in ownership, construction, or operation of specialist housing.

*States and territories*

Some states have indicated their intention to substantially reduce their direct involvement in disability services. The main practical contribution to finance is expected to be in the form of land, which will not have an effect under the recently published SDA Pricing and Payments Framework by the NDIA, as it will be treated as in-kind contribution.

## 5.7. Funding scenarios

The aggregate funds for UCC were costed on as 12% of the average individual entitlement package for people with level 16 support needs or above. Although these costings were notional and aggregate, for the purpose of modelling, they are treated here as the benchmark for allocation of individual packages. In such a scenario, people with level 16 support needs will be allocated a package of $168,000, while people with level 24 disability (the highest level) will be allocated a $280,000 package. Thus, the UCC housing subsidy can range from $20,160 to $33,600 (12% of the respective packages).

Table 7 shows the estimated amount that could be borrowed (serviced by this cash flow) for a person with the highest, average and lowest package that includes the 12% UCC. The amounts are indicative. Actual borrowing costs will depend on prevailing rates over the term and a risk assessment of the borrower.

| **Table 7: Estimate of Borrowing Capacity** | | | |
|---|---|---|---|
| Overall NDIS Package | | UCC | UCC Borrowing Capacity |
| Level 24 (Highest) | $280,000 | $33,600 | $345,000 |
| Median | | $25,000 | $256,000 |
| Level 16 (Lowest) | $168,000 | $20,160 | $207,000 |

For modelling purposes, the median subsidy of $25,000 per person is used here.

In addition to the above, the modelling assumes a reasonable contribution from service users of 25% of DSP plus CRA, as is common in the social and affordable housing sector. In the case of social housing, it is acknowledged that the landlord will pay outgoings (e.g. rates, insurance, maintenance, and body corporate costs). Given the low income of most occupants of SDH, it is logical to apply this principle; thus, the gross contribution is 25% of income plus CRA (also adopted by the SDA Pricing and Payments Framework).

If a person with disability or an NFP chooses to borrow against the income stream, the cost outgoings will need to be deducted to calculate a net cash flow used to service the loan repayments. After that, banks will typically apply a buffer (refer to Table 8).

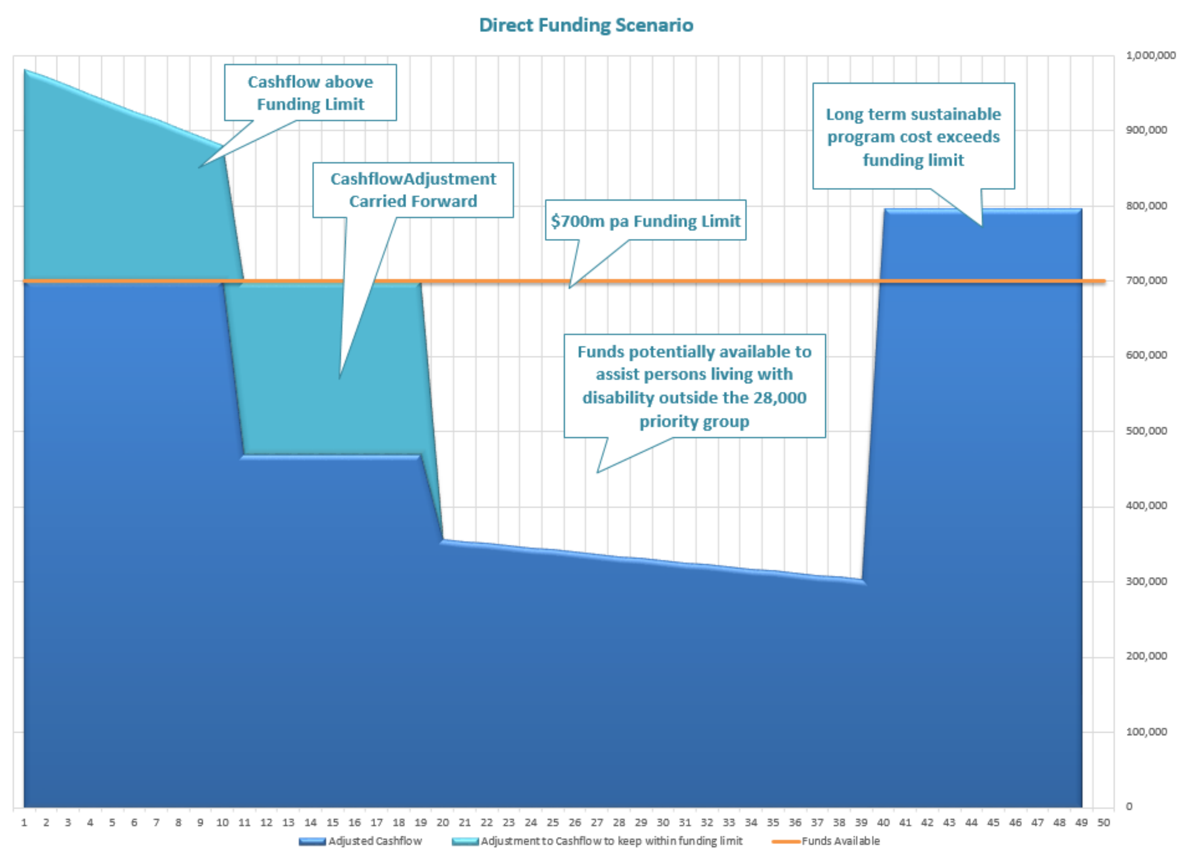
| **Table 8: Estimated Accommodation Contribution** | **Assumed Entitlement** | | |
|---|---|---|---|
| | Fortnightly | Weekly | Annually |
| Disability Support Pension | 782 | 391 | 20,337 |
| Energy Supplement | 14 | 7 | 367 |
| Pension Supplement | 0 | 0 | 0 |
| *Total Income* | *$796* | *$398* | *$20,704* |
| Capped Accommodation Cost, 25% | 199 | 100 | 5,176 |
| CRA (Median Entitlement) | 104 | 52 | 2,704 |
| *Total Capacity to Pay for Accommodation* | *$303* | *$152* | *$7,880* |
| **Estimated Borrowing Capacity Based on Net Cash Flow** | | | |
| Total Capacity to Pay for Accommodation | $303 | $152 | $7,880 |
| Estimated Outgoings (Rates, Insurance, Body Corporate, etc.) | $127 | $63 | $3,300 |
| Net Cash Flow (available to service debt) | $176 | $88 | $4,580 |
| *Estimated Borrowing Capacity Based on Net Cash Flow* | | | *$25,000* |

*Direct Funding*

One possible scenario is for the NDIA to directly fund individual projects, assessing finance applications and generally playing the role of a bank by providing capital directly. However, as the following table indicates, the NDIA funding stream is not likely to be sufficient to achieve the targets through direct funding, with the shortfall estimated to be at least $1.3bn over the first 10-year period.

| Table 10: Direct Funding Shortfall | | Total | Y10 | Y20 | Y30 | Y40 | Y50 |
|---|---|---|---|---|---|---|---|
| | | | | | *Decade ending…* | | |
| | | | 2019 | 2029 | 2039 | 2049 | 2059 |
| New SDH Units | | | 12,000 | | | | |
| Programmed Renewal of Existing SDH | | | 4,000 | 4,000 | 4,000 | 4,000 | 16,000 |
| Renewal Workflow: Number of Units | | | 16,000 | 4,000 | 4,000 | 4,000 | 16,000 |
| | Capital Cost of Renewal | $15,400 | $5,600 | $1,400 | $1,400 | $1,400 | $5,600 |
| | Asset Management Costs | $9,562 | $2,744 | $2,086 | $1,806 | $1,526 | $1,400 |
| Total Program Cost (Millions) | | $24,962 | $8,344 | $3,486 | $3,206 | $2,926 | $7,000 |
| | Funds Available (Millions) | $35,000 | $7,000 | $7,000 | $7,000 | $7,000 | $7,000 |
| | Shortfall (-)/ Surplus Funds | $10,038 | -$1,344 | $3,514 | $3,794 | $4,074 | $0 |

One option would be to slow down the program in the first 10 years, keeping within the funding limit (assumed to be $700m per annum) and transferring funding into the second 10-year period. The following chart shows this option graphically. Using this deferred program, it would take just less than 20 years to directly fund specialist housing for all those who were assessed as eligible. Such a timeframe will fail to meet the urgent need for housing, especially among people living with elderly carers or in otherwise inappropriate housing and living arrangements (such as institutions).



*Housing Bonds*

Another option is for the NDIA to raise finance via a bond issuance. There are a number of precedents for such a mechanism, with the scale of bond issue in the United Kingdom similar to the scale of the NDIS housing challenge (Hammond, Feb 2013). In principle, a bond issue is relatively simple. Capital can be raised by issuing a bond in exchange for a promise to repay principal and interest over a period of time. In practice, there are many financial considerations, which are beyond the scope of this paper, such as the stability sought by investors, government backing of the repayments and how that is guaranteed, and how finance can be rolled over for long-term borrowing. Some of these issues are considered in a recent AHURI paper (May 2012, p. 6).

In the case of NDIS, part of the $700 million funding could be used to meet the coupon (interest) and principal payments. Institutional investors are potential NDIA bondholders. Table 11 below provides an indicative scope for such funding.

| **Table 11: Example Funding Gap** | |
|---|---|
| Average Cost Example | $410,000 |
| Reasonable Client Contribution | -25,000 |
| Not-for-profit Equity (approx. 5%) | -23,000 |
| GST Benefits | -37,000 |
| Finance Requirement (rounded) | $325,000 |
| Number Required in the First 10 Years | 16,000 units |
| Capital Funds Required (bond raising) | $5,200m |

A bond issuance valued at $5,200m would attract a payment of principal and interest at a coupon rate of 5% p.a., equivalent to $338m p.a., for a term of 30 years. The rate is assumed based on scale and rating with government underwriting of the payments (4.4% assumed) and also the need for an administration provision (0.1%) and a guarantee premium (0.5%), which is identified in the AHURI paper (May 2012).

Adopting the principle of full depreciation lifecycle costing, the loan period would be structured as principal and interest with a term less than 40 years. This will facilitate decommissioning and renewal of the SDH at the end of a 40-year cycle, resulting in sustainability of the portfolio. The main pressure on funding would occur in the first 10 years. A hybrid funding method combining housing bonds in the first 10 years with direct funding in other years is an option. The assumption is that asset management will be directly funded out of annual funding, as it would be unusual to borrow to pay for recurrent costs.

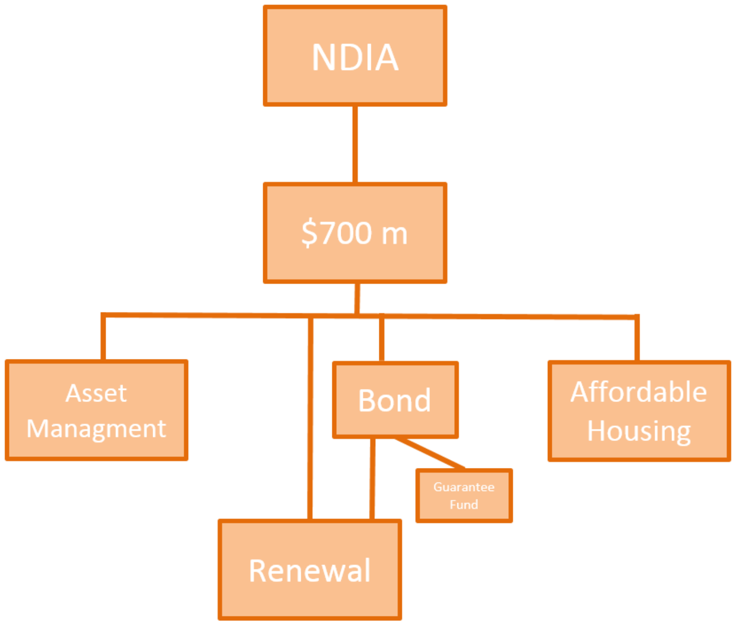



Diagram 7a: Allocation of Funding using a Housing Bond or partial Housing Bond funding

Table 12 shows a scenario where there is unallocated funding in a particular year. This headroom could potentially be used to expand the supply of affordable housing for NDIS participants outside of the cohort initially identified as eligible for specialist housing, including options such as affordable housing projects and shared equity schemes.

| Table 12: Illustrative Funding Cost Allocation | $m per annum |
|---|---|
| Bond Servicing Payments (Principal and Interest) | 375 |
| Asset Management | 225 |
| Funding Headroom Available for Alternative Priorities | 100 |
| Total Annual Funding Stream | $700 |

Refer to Diagram 7a following:

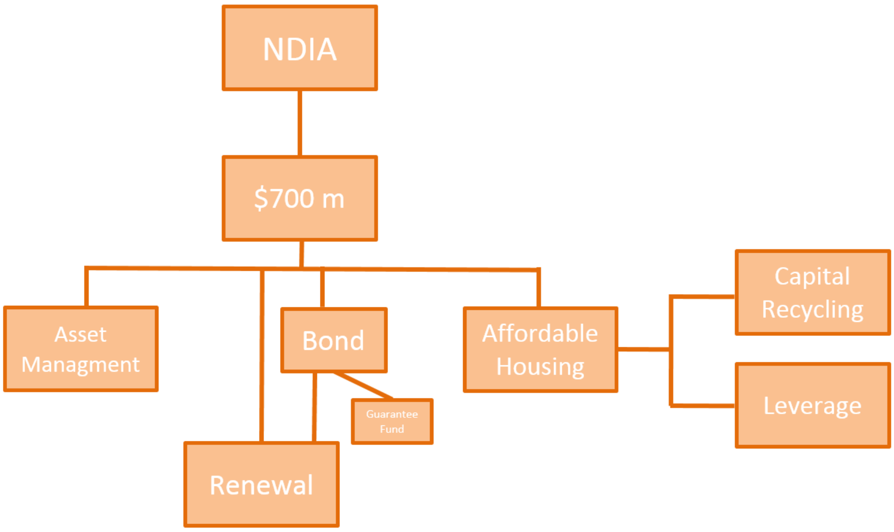
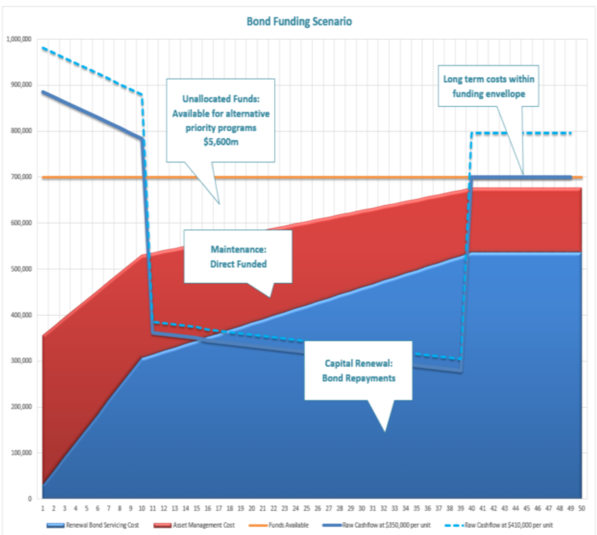


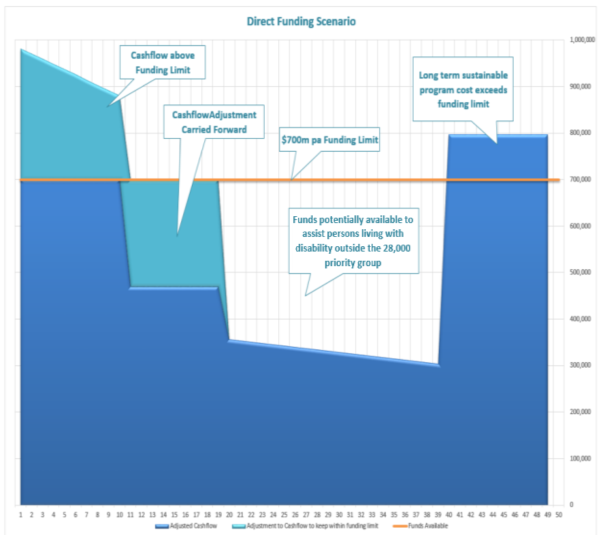

Diagram 7a: Allocation of Funding using a Housing Bond or partial Housing Bond funding, incorporating Leveraging and Recycling of Funds

There may also be capacity for a partial recovery of costs. For example, a bond that pays a coupon of 5% might be made available to an NFP for free for 10 years and then, perhaps, at a rate of 1% or another figure.

The diagram below illustrates the principles outlined above for a 50-year timeline. For comparison, the direct funding scenario shown previously is also shown below on the right.

In the diagram on the left, it is assumed that delivery is coordinated through NFPs, which will result in savings to the NDIS from favourable tax treatment and leveraging against cash flow collected as a reasonable contribution from tenants.



## 5.8. Mechanisms for delivery

The NDIA has stated that it will not provide a housing delivery function.

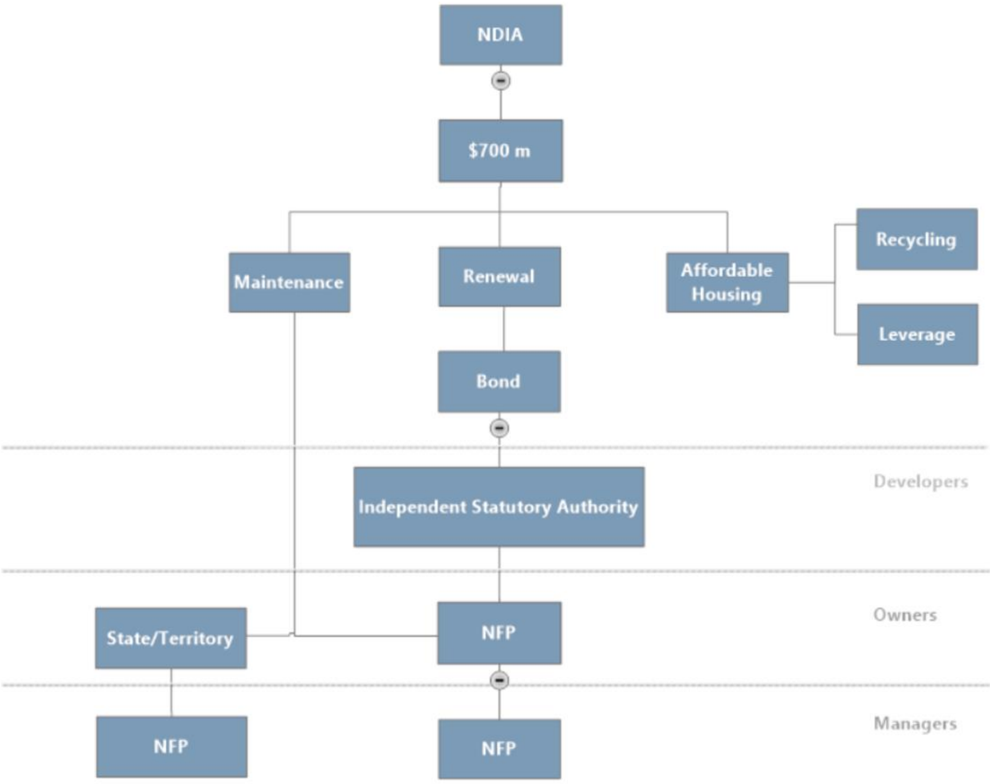
*State Housing and Public Works Departments*
The states have demonstrated capacity in program delivery; however, the approach and appetite for delivery and funding of NDIS programs will vary from state to state. Some states may wish to exit the space, while others may see this as an opportunity to become more involved.

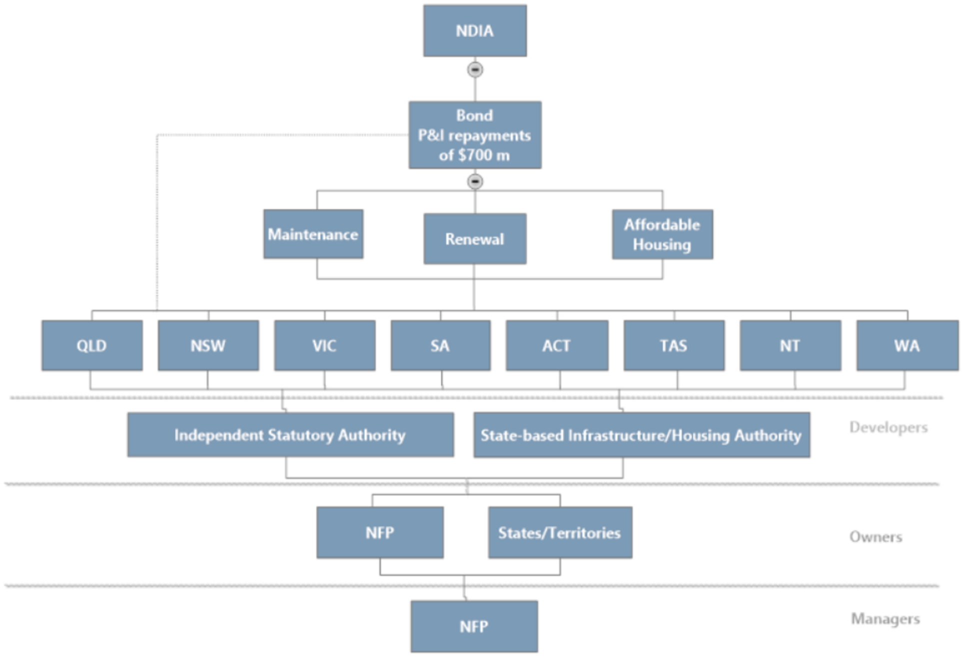
*NFPs Delivery Capacity*
As the preceding stakeholder analysis shows, there are financial and operational advantages with NFP organisations undertaking the delivery role. This could be in addition to the states or as an alternative, as the case may be. Despite capacity building in recent years, it will be a significant challenge for the NFP sector to develop 16,000 SDH dwellings with the required geographic diversity, consistency, and efficiency in 10 years. An important question is whether it is efficient, or even good risk management, for each NFP to create delivery capacity independently.

*A Delivery Entity*
There would be advantages for NFPs to pool resources into a centralised delivery agency, including retaining the financial benefits of the charitable tax benefits not generally available to the states. Such a delivery entity could engage staff directly, but it could also procure that capacity through third-party suppliers by competitive contract (project management firm, managing contractors) with selection based on the capacity to deliver development outcomes on a large scale.

In reality, each project will have individual circumstances and assessment of each project will require individual review. It is possible that a delivery entity could oversee best-practice design and tendering standards, bringing regulation, consistency, expertise, and learning into the equation. Such a body could also carry out program planning on a basis informed by delivery in the field, including capital works, cash flow, and bond issue forecasts.

Such a system is an effective way to overcome a fundamental challenge for the NDIS, which is that there are unique demand and supply factors in locations across Australia and there are constant changes in market conditions and building costs, interest rates, and many other factors. A body such as this is not inconsistent with state housing and public works bodies, and the two groups could work in parallel or jointly in a formal structure (e.g. a statutory body or an ALMO). There are a number of options for structuring such an entity. Two suggestions are shown in the following diagrams:




A key issue for further research and consideration is the implications of such a centralised delivery entity for consumer choice and control and the design of policies that enhance consumer choice in a housing supply system dominated by a single provider.

*Planning for Outcomes—An Allocation System*

Funding allocations will need to be sensitive to differences in the costs of land and development in different geographical areas. The NRAS experience demonstrates that a flat-rate incentive leads to regional disparities in the take-up of funding. This suggests that the rate of subsidy should be calculated based on a range of factors, which include the locality and the type of dwellings proposed, and that the capital allowance should be varied in different locations and different circumstances. Such an approach has been adopted by the SDA Pricing and Payments Framework.

*Direct and Indirect Funding*
Individualised funding—allocated directly to participants rather than to services—is the centrepiece of the NDIS. However, there are risks involved in such a demand-side approach to funding housing. Housing providers will need to borrow for 30 or 40 years on the expectation of receiving consistent income. A demand-side, rather than supply-side, subsidy would increase the risks associated with housing providers' cash flow due to the possibility of vacancy. There is a need for further analysis of options to ensure choice and control for people with disability is balanced with financial certainty for providers to reduce the costs of vacancy risks that ultimately limit their capacity to deliver the necessary supply.

*Ownership Models*
Ownership models made available to NDIS recipients, including shared equity and shared ownership, could assist in the leverage of finance from people with disability and their families and contribute to the NDS objective of developing 'innovative options to improve affordability and security of housing across all forms of tenure' (Australian Government, 2011, p. 46).

Equity for shared equity might come from families or benevolent and charitable sources. Analysis suggests that such investment could achieve a modest return. To illustrate this, Table 6a has been modified by adding a shared equity scenario. In this scenario, an equity supporter, most probably a family member, could invest 20% of the purchase price. This would reduce the cost to the NFP housing provider from $410,000 to $328,000. The person living with the disability could then reduce their housing commitment from $25,000 to $5,727.

| **Table 6a: Estimate of Equity Requirement for NFPs** | **Debt Model** | **Shared Equity Model** | |
|---|---|---|---|
| Average Purchase Price | $410,000 | 80% | $328,0000 |
| *Shared Equity Investment* | | 20% | $82,000 |
| *less* NFP Tax Advantage | $37,273 | | $37,273 |
| Subtotal | $372,727 | | $372,727 |
| *less* Borrowing Capacity Based on Average UCC | $285,000 | | $285,000 |
| *less* Reasonable Client Contribution | $25,000 | | $5,727 |
| Average Funding Gap/NFP Equity Contribution | $62,727 | | $0 |

In this scenario, it is assumed that the equity investor would qualify for an input tax credit on the basis of charitable supply. Note that this assumption has not been tested. The equity investor's cash flow would then be the initial 20% ($82,000) less GST Input Tax Credit ($37,273), which would equal $44,727 net. Assuming that the property is sold in Year 20, this would generate revenue of 20% of the sale price (or $82,000). The net cash flow is

$37,327, and an internal rate of return on this investment of 3.24% is calculated before property price escalation.

| Shared Equity Investment | 20 Year Total | Y1 | Y2 | Y3 | Y4 | Y5 | Y6 | Y7 | Y8 | Y9 | Y10 | Y11 | Y12 | Y13 | Y14 | Y15 | Y16 | Y17 | Y18 | Y19 | Y20 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Equity Investment | (82,000) | (82,000) | | | | | | | | | | | | | | | | | | | |
| GST ITC | 37,273 | 37,273 | | | | | | | | | | | | | | | | | | | |
| Net Equity Investment Cashflow | 37,273 | (44,727) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 82,000 |

*IRR= 3.24%*

Note also that many people with disability will continue to place pressure on the social housing waiting list, and a reasonable resident contribution that varies too much from the social housing formula could lead to anomalies.

# 6. Policy implications

This report has identified unmet need in affordable housing for 35,000–55,000 NDIS participants, who will not be able to secure affordable private housing, mainstream social housing, or NDIS-funded specialist housing in the first 10 years of the scheme, unless significant additional investment in affordable housing is made by Australian governments. Further assessment will be required to investigate the impact of failing to invest in assisting such a large number of NDIS participants to secure suitable housing. This includes assessment of the implications for NDIS participants and their families and the actuarial implications for the NDIS.

The financial modelling undertaken reveals that, if delivered through direct investment in individual housing projects, NDIS UCC will fail to meet the target of delivering new specialist housing for 12,000 participants and sustaining these and existing specialist housing in the long term. The modelling demonstrates that structuring UCC as a source of funding for a housing supply bond is a more viable option for reaching these targets.

NFP organisations will have significant financial and other advantages over state government agencies or for-profit entities in delivering new affordable housing supply. Pooling NFP resources through a partnership coordinated by a central agency will achieve greater capacity and improved efficiencies in delivering supply in the scale and timeframes required.

Further research is required to consider policy options to maximise choice and control for NDIS participants in a system where housing is funded and delivered as proposed above, as opposed to a demand-side subsidy model where people with disability can choose between multiple housing providers.

Further research and policy discussion is necessary to consider the tension between the need to provide social housing accommodation for eligible NDIS participants and pressures on the social housing system arising from over-concentration of people with significant disability. Currently, households with a person with disability represent nearly 40% of all households in social housing; people with a significant disability (future NDIS participants) represent approximately 20% of all social housing tenants. Entry of an additional 30,000–40,000 NDIS participants into social housing (representing only 10% of all new social housing allocations between 2019 and 2028) will increase their proportion to over 30%. Further analysis and policy development is necessary to consider the implications of such a shift for NDIS participants, other social housing tenants, and the viability of the social housing system. Further policy development is necessary to ensure social housing allocation policies are capable of securing policy objectives in respect to the desired proportion of allocations made to NDIS participants.

It is important to note that the estimation that 30,000–40,000 NDIS participants can be assisted through the social housing system will provide this cohort with a partial solution to their unmet need but not with an ideal solution. Many of these participants will have to wait several years until they are offered a placement, which is most likely to happen when they experience a situation of crisis. They will have very limited choice about the location and nature of their home.

Further research is required on quantifying capacity of NDIS participants to secure affordable housing in the private sector. This includes analysis of the capacity of families to provide financial assistance for home purchase (including through shared equity schemes) or ongoing assistance with private rental and analysis of the extent to which sharing arrangements in private rental could become a viable solution for a proportion of NDIS participants.

The challenges encountered in analysis raise concerns about the adequacy of data and existing research on housing for people with disability. Existing data sources are not fit for purpose for the implementation of a $22bn national insurance scheme. Existing data about the current housing arrangements of people with significant disability is ambiguous due to inconsistency across data sources in terminology and categorisations of different housing forms and difficulty in linking housing data to sufficiently nuanced data on types and levels of disability. Data was least appropriate for some of the most vulnerable groups, such as people with disability experiencing homelessness. Improving and streamlining data collection initiatives in Australia (primarily ABS census, SDAC, and AIHW collections) is an urgent task.

# 7. Abbreviations

| Abbreviations | | | |
|---|---|---|---|
| **SDH** | Specialist Disability Housing | **DHF** | Disability Housing Futures |
| **NDIA** | National Disability Insurance Agency | **UCC** | User Cost of Capital |
| **NDIS** | National Disability Insurance Scheme | **NFP** | Not-for-profit |
| **SHI** | Social Housing Initiative | **DSP** | Disability Support Pension |
| **NRAS** | National Rental Affordability Scheme | **NAHC** | National Affordable Housing Consortium |
| **ALMO** | Arm's Length Management Organisation: in this context a delivery body that facilitates government and non-government joint delivery. | **AIHW** | Australian Institute of Health and Welfare |
| **COAG** | Council of Australian Governments | **CRA** | Commonwealth Rent Assistance |
| **CRPD** | Convention on the Rights of Persons with Disabilities | **DHASI** | Disability Housing and Support Initiative |
| **HPA** | Home Purchase Assistance | **IHOP** | Indigenous Home Ownership Program |
| **ILC** | Information, Linkages and Capacity | **NBJP** | Nation Building and Jobs Plan |
| **NDS** | National Disability Strategy | **SDAC** | Survey of Disability Ageing and Carers |
| **SOMIH** | State-owned and Managed Indigenous Housing | | |

# 8. Financial assumptions

The limitations of the funding model analysis are important directions for future research. Major assumptions or omissions include the following:

- All estimates are rounded to simplify analysis.
- The analysis relied on the information in the Productivity Commission's report that 12,000 new SDH places are required. In reality, this number may be more or less.
- It also relied on the information in the Productivity Commission's report that there are 15,700 people living in existing supported accommodation. This figure has been rounded to 16,000 in the modelling.
- The $700m annual contribution to the capital cost of housing is derived from various reports regarding the NDIS, but the exact funding arrangements are yet to be published by the NDIA itself.
- It is assumed that the average growth in property prices matched inflation; therefore, both the UCC and property prices grow by the same amount over the next 40 to 50 years. Past history shows that property price rises are substantially above inflation.
- Transaction costs in property purchases have not been included.
- Growth in the costs of maintenance and repairs has not been allowed for, again assuming costs rise with inflation.
- Population increase has not been allowed for. While the proportion of the population that have severe or profound disability is small, this proportion is likely to be maintained as the population grows over the next 40 to 50 years.
- Revenue raised from selling SDH at the end of their useful lifecycle has not been included, though a renewal program to replace them is included in the modelling.
- Savings to all levels of government from the NDIS program have not been measured. Significant savings are expected to be generated from state/territory governments transferring existing dwellings to the NFP sector, as it can cost $160,000 p.a. to maintain a group-home place. Potentially, revenue can also be generated to all levels of government from the construction of new dwellings in the form of taxes (some might be exempt due to the nature of the dwellings and the type of provider) (Refer to Table below).

**Table 7 Revenue from Construction of New Dwellings**

| Government Level | Revenue Sources |
|---|---|
| Local | Infrastructure contributions |
| | Development application fees |
| | Building application fees |
| | Council rates and charges |
| State | Transfer (stamp) duty for transaction of land purchase |
| | Transfer (stamp) duty for property transaction |
| | Land tax |
| | Payroll tax |
| Federal | Income tax generated from direct and indirect jobs created |
| | GST on construction costs associated with properties |
| | Capital gains tax from the sale of dwellings at end of useful lifecycle |

*Source: Earle, G. and Khanjanasthiti, I., 2013, NRAS: Economic and Taxation Impact Study*

- Indirect economic multipliers and efficiency gains have not been included.
- Bank finance calculations are based on 25 years at 7.25%.
- SDH typically require a larger usable floor area per occupant, than the equivalent mainstream unit. Relative costs for constructing SDH are based on an approximation of median 2-bedroom unit prices
- Property prices are based on forecast estimates of units for 2018.
- The weightings for the weighted average funding gap are based on the proportion of residents that currently access support for accommodation.
- It is estimated that the useful lifecycle of an SDH is 40 years. This is shorter than the useful lifecycle of general accommodation, reflecting physical costs in use as well as technological and functional redundancy.
- The discount rate assumed in all calculations is 7%.
- The bond maturity is 40 years, with a coupon of 4% plus 0.01% administration and 0.05% insurance charges.
- The 0.01% administration fee is an additional allowance for costs incurred to issue bonds and distribute the funds.

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