Review of Disability Housing Program

Discussion Paper

Prepared by:

ak advisory

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Overview

Renewal SA, acting on behalf of the South Australian Housing Trust (SAHT) leases approximately 350 homes to not-for-profit organisations (NFPs) through the Disability Housing Program (DHP). The homes are occupied by people living with a disability and many are expected to be affected by the introduction of the National Disability Insurance Scheme (NDIS).

Whilst support services for NDIS participants are not part of this Review, some residents in DHP properties may be eligible for Specialist Disability Accommodation (SDA) funding under the NDIS. As such, a Review is necessary to better understand and respond to opportunities to use this additional funding for the benefit of current and future DHP residents.

This discussion paper presents the background to the review, some key features of the review and the key issues it needs to address, along with feedback from the consultation to date. The discussion paper also puts forward views about how these key questions might be addressed, for further feedback.

The review is specific to this Disability Housing program. The review considers the broader context of change due to the introduction of the National Disability Insurance Scheme (NDIS). However, issues in relation to other forms of housing for people living with a disability or the introduction of the NDIS more broadly are outside the scope of the review.

A key objective of the review is to achieve greater numbers of housing outcomes for tenants with a disability, and for those housing outcomes to be innovative and contemporary to assist NDIS participants to achieve their goals.

Another key component of the review is the development of a policy position that describes SAHT's future role in funding and delivery of specialist disability housing for SA, the nature of that funding (e.g. leased properties, land or other subsidy), and the respective roles of CHPs and other NFPs in a multi-provider system.

This discussion paper outlines four themes:

- Maximising the number and quality of housing outcomes
- Housing and support interface
- Special cases
- Choosing housing providers,

and suggests a number of principles for the future of the program. Each section poses questions for your feedback.

Thank you for your input to the consultation process that led to the development of this discussion paper. To provide feedback in relation to this discussion paper, please email your responses to:
Email: industrypartnershipschp@sa.gov.au

Objectives of the Review

With a background of considerable change, Renewal SA has decided to review the current DHP, and to develop a new model that is compatible with the future envisaged for disability housing and services, and community housing more generally, and which maximises the benefits to South Australian consumers living with a disability and the South Australian public more broadly.

The objectives of the review of the Disability Housing Program are set out in the Project Brief as follows:

The review seeks to achieve the following objectives:

- Optimal use and leverage of the SAHT assets in the DHP program for the benefit of consumers with a disability, now and in the future, especially in light of the likely impact of NDIS consumer-driven approach, and the resultant increased competition from disability housing providers.
- Maximising the amount of Specialist Disability Accommodation funding to flow into South Australia, and optimising the application of that funding taking account of direct and indirect benefits, including reinvestment in new disability housing, upgrade of existing stock, attraction of private finance, and economic stimulus as a result of building activity.
- Maximising opportunities for increasing disability housing options for consumers in South Australia. This includes:
    - Maximising opportunities for choice by consumers in where and how they choose to live, including home ownership and shared equity options
    - o Increasing the amount of housing stock which meets the changing expectations of people with a disability in SA
    - Ensuring that disability housing stock is market-focussed and contemporary, including supporting innovative design and technology applications
- Ensure a whole-of-life approach to disability housing asset management, disability modifications and asset replacement, ensuring a continuing supply of contemporary accommodation options, together with optimal tenancy management services.

In support of the above, the Review seeks to:

- Clearly define the role of SAHT in a multi-provider system, to achieving the above objectives, including ongoing protection of SAHT's financial interest in property or other funding provided for use by community housing providers (CHPs) or other NFPs, and taking account of state government financial and budgetary considerations.
- Clearly articulate the role of CHPs in a multi-provider system, and the contractual relationship between SAHT and CHPs in relation to disability housing, including:
    - Taking a portfolio management approach to tenants and houses (not restricted by designated usage for houses – except where investment in disability design and modifications defines the optimal use of that property) and
    - Reducing inconsistencies and streamlining where possible with other community housing programs including management of properties under the Master Agreement and properties transferred under lease for BPSC and ROSAS.

Background to the Review

Current Program

The Disability Housing Program comprises approximately 350 properties owned by the SAHT and leased to NFPs. The NFPs are currently a mix of registered CHPs and disability support service providers. The total capital value of the properties in the program is approximately $112m and there are approximately 800 tenants living in the properties.

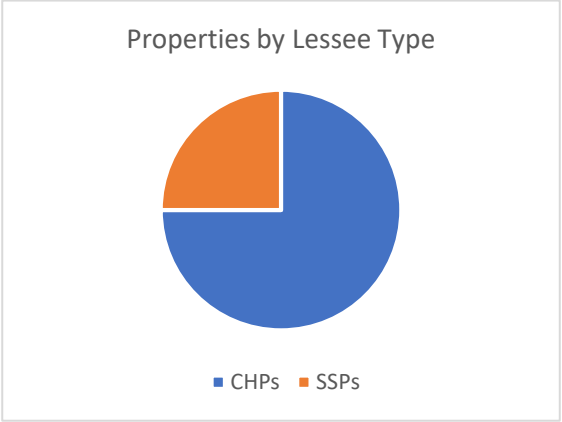
In addition, approximately 100 new properties are being built throughout SA for people with a disability as part of the 1000 Homes in 1000 days initiative. These will be added to the DHP and are expected to be completed between late 2017 and September 2018.

Renewal SA will manage an EOI process to lease these properties to CHPs for a period of time until the outcomes of the DHP review are determined and recommendations are implemented. To the extent that is possible, where the outcome of the DHP review can be forecast, the EOI process will align with the anticipated outcome of the DHP review to minimise disruption to tenants and CHPs and wasted effort by CHPs and Renewal SA.

There were 353 properties in the DHP program at 31 August 2017. The data below is based on this date unless indicated otherwise.

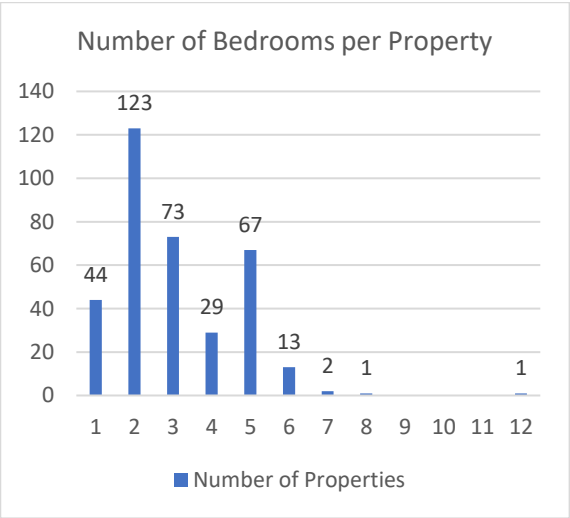
Lessee type

CHPs leased just over 60% of properties in the DHP. The remainder were leased by support providers. A further 15% of properties will be transferring to CHPs as a result of the recently completed Disability Housing EOI, bringing the split to 75%/25%.



Size of properties

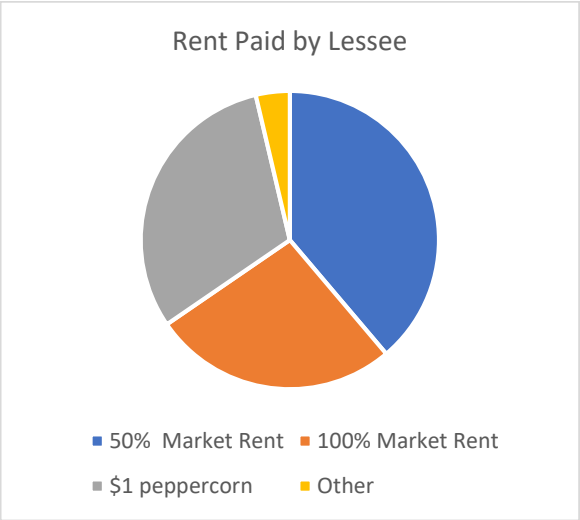
The majority of properties have two bedrooms but there are also a large number of group homes with 4-6 bedrooms and 2 boarding houses.



Rent Paid by Lessee

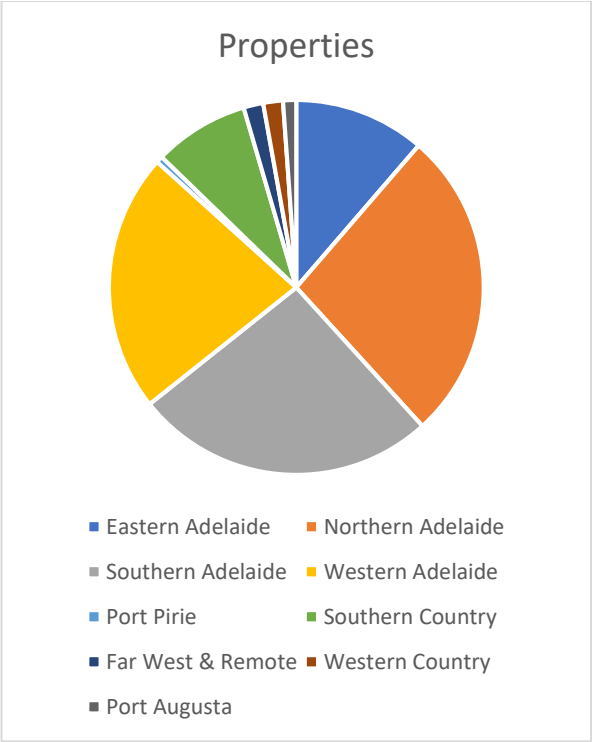
There are a variety of arrangements in relation to the rent paid by the leasing NFP to the SAHT. These range from a peppercorn rent (e.g. $1 per year) to full market rent. However, when the NFP pays only a peppercorn rent they pay for local government rates

on the property and also pay for most maintenance on the property.



Location

Nearly 87% of DHP properties are in the Adelaide metropolitan area (306 of the 353) with a further 8% in the Southern Country region. Only 5% of properties are in the Port Pirie, Port Augusta, Western Country or Far West and Remote regions. This is well below the proportion of the population in rural and remote areas.



Consultation feedback supported the need for more accommodation in regional and remote areas for people with a disability.

However, the waiting list data for disability housing tends to confirm that there is a much higher demand in the metropolitan and Southern Country regions and little or no demand elsewhere.

Redevelopment potential

The ratio of capital value to site value (CV:SV) is commonly used as an indicator of the economic potential to redevelop a property. Of the DHP properties, 84 had a CV:SV of between 1 and 1.2 making them strong candidates for redevelopment. A further 61 properties had a CV:SV ratio of 1.21 to 1.5 making them reasonable candidates.

Just over 50 of these properties house one or more participants who were likely to be eligible for SDA (with a total of an estimated 150 NDIS participants).

This is a rough indication only, and does not take account of properties that are not functionally fit for purpose, but which might have a higher CV:SV ratio.

Current DHP accommodation does not always meet contemporary standards, and is potentially less likely to in future, as consumer expectations continue to shift, including with the implementation of the NDIS.

Impact of the NDIS

The introduction of the NDIS is the largest change in Australia's social support system since the introduction of Medicare. The NDIS is estimated to be worth about $22 billion annually. It will become available for adults aged 18 to 64 years in SA between 1 July 2017 and 30 June 2018 depending on their location.

For people living with a disability and support provider agencies, the introduction of the NDIS is very welcome but it has also been challenging because of the pace of change, and some uncertainty about how certain elements will work.

It is widely accepted that there is a significant shortage of accessible and affordable social housing for people living with a disability. The NDIA wants to encourage innovation in housing, attract new suppliers into the housing market and promote real choice and control for NDIS participants around where they live and whom they live with. In general, the NDIA expects that housing for people with a disability will be provided by mainstream housing options including social and affordable housing, home ownership and the private rental market.

However, additional funding is available for NDIS participants who require specialist housing solutions to cater for their 'extreme functional impairment and/or very high support needs'. This is called Specialist Disability Accommodation (SDA) funding.

The NDIS provides SDA funding through a participant's plan and the participant then finds and applies for the best SDA option for them, often with the help of additional support such as a support coordinator.

The SDA has been designed to encourage private investment in specialist disability housing and is passed onto the housing provider. It provides potentially significant opportunity to fund the upgrade of existing stock or the replacement of legacy stock with contemporary purpose-built accommodation to support the goals of NDIS participants.

To receive the SDA payment a housing provider must be registered as an NDIS provider, the dwelling must be enrolled with the NDIA and the residents must have the relevant NDIS approval. All parties must meet criteria that are set out in the SDA Rules, NDIS Terms of Business and the SDA Price Guide 2017/18 amongst other documents.

The amount of SDA payable per participant varies considerably depending on the number of people living in the dwelling, the building design category and whether or not on-site overnight assistance is required. For example, the SDA payment per participant per year for 2017/18 is $27,559 for a new build fully accessible house with two residents and no on-site overnight assistance and $107,236 for a new build two-bedroom apartment built to accommodate high physical support with one resident and on-site overnight assistance. For a four-resident group home that is classified by the NDIS as basic and existing stock the 2017/18 payment per participant per year is $5,607.

It is expected that about 6% of NDIS participants will qualify for the SDA. This equates to 28,000 people nationally and about 2,000 participants in SA. This is just an approximate estimate. The actual number of participants who have SDA in their plans will only be known once the NDIA makes assessments of people's eligibility.

As the NDIA's purpose in providing SDA is to stimulate capital investment in housing for people with a disability and specialist housing requirements, the review considers that any SDA received in relation to these properties should be reinvested for capital purposes related to housing for people on low incomes with a disability.

An objective of the review is to maximise the amount of SDA funding to flow into SA, and optimise the application of that funding taking account of direct and indirect benefits, including reinvestment in new disability housing, upgrade of existing stock, attraction of private finance, and economic stimulus as a result of building activity.

At present, there is a gap in information. We don't know who the NDIS participants who will attract SDA are, how many of them are already in suitable accommodation or what their specific accommodation requirements are. SDA payments are generally not made while a property is vacant. It is likely that well designed, well located, flexible accommodation will be in demand, but there are some risks to navigate.

Working early on in the process with a Liveable Housing Assessor to have designs verified as compliant will be extremely important. Otherwise there is a risk that a dwelling doesn't meet the strict standard required and the provider won't be able to 'enrol' the dwelling or get any SDA payment at all.

The NDIS aims to provide people living with disability more choice about their support provider and where they live. Changes are also expected to traditional allocation or nomination arrangements for supported accommodation. Under the NDIS, agreement will be required between residents and accommodation providers (and support providers where there are existing shared supports in a home). As such, good partnerships and working arrangements between housing and support providers remain extremely important for good outcomes for the residents. See Theme 1 on page 10.

Questions

Do you agree that any SDA received in relation to these properties should be reinvested for capital purposes related to housing for people on low incomes with a disability?

How can the risks associated with the SDA best be managed for these properties?

Do you think that there is a need for more accommodation for people with a disability in rural and remote SA? If so how can the DHP properties be used to improve this?

Community Housing Providers

The community housing industry has become an important source of affordable and social housing in Australia. It includes experienced, capable and well-regulated providers.

SA became a full participant in the National Regulatory System (NRS) for Community Housing in 2014. Under the NRS, registered community housing providers (CHPs) must demonstrate that they meet the requirements set out under the National Regulatory Code. This code sets out performance requirements in relation to:

- Tenancy and Housing Services
- Housing Assets
- Community Engagement
- Governance
- Probity
- Management
- Financial Viability.

As part of these requirements, CHPs must demonstrate their ability to facilitate access to support for tenants with complex needs. This is particularly relevant for tenants in the DHP.

Along with the above requirements, Tier 1 and Tier 2 CHPs must demonstrate their ability to undertake residential development activities.

This makes registered Tier 1 and Tier 2 providers particularly appropriate to own or manage the DHP properties as they have the ability to manage complex tenancies, facilitate support and undertake redevelopment to maximise opportunities provided by leveraging DHP properties. CHPs have tax and other policy advantages that mean that CHPs will generally be able to provide a greater number of new housing outcomes than the SAHT would be able to achieve by retaining the properties.

Due to these advantages, Renewal SA has a policy of increasing the amount of social housing owned or managed by CHPs and has transferred the long-term management of 5,000 public housing properties to SA Tier 1 providers since 2015.

When the State Government provides a subsidy to support any community housing properties, there is a contract between the relevant CHP and the SAHT that sets out the requirements in relation to eligibility, rent and use of the property. The contract is managed by Renewal SA on behalf of the SAHT. The relevant agreement includes a requirement that a CHP must be registered under the NRS. The CHP must also maintain (or increase) the number of housing outcomes for specified tenant types, e.g. X disability, Y mental health, and Z general set out in the contract.

Theme 1 – Housing and Support Interface

Currently there are almost 800 tenants living in the DHP properties in SA. The tenants are living with a wide range of physical, intellectual and psycho-social disabilities.

An important objective of the review is to support the development of contemporary accommodation for current tenants within this program and other South Australians living with a disability. Appropriate contemporary accommodation can support NDIS participants to reach their full potential and to lead more independent lives than they might otherwise achieve.

An important principle of contemporary practice is to separate the provision of support and accommodation for people living with a disability wherever possible. This helps to increase the choice and control that NDIS participants have over their lives[1]. [2]

Many disability service providers are keen to relinquish their leases and transfer property and tenancy management services to organisations who deliver tenancy and property services as their core business. Disability SA has relinquished most of its property and tenancy management role.

The Review considers that the goal of separate provision of housing and support is an important one and that this should be included as a principle of the new DHP program. It is noted however that some flexibility may be required in terms of the timing and process to get to that goal.

In addition, as noted above (page 9), CHPs are specialists in property and tenancy management, and many have expertise in property development and tenancy management for clients living with profound disability. In addition, they are regulated under the NRS and contract managed by Renewal SA for specific property and tenancy management outcomes.

Moreover, having property and tenancy management handled by a CHP allows the support

[1] Recommendation 29, Strong Voices report, Social Inclusion Board, October 2011.

[2] SDA Decision Paper on Pricing and Payment, NDIA, June 2016, Section 2.4.2

provider to focus on its own area of expertise, namely the provision of disability support services.

For these reasons, the Review considers that properties should be managed (or owned) by CHPs in the future DHP program.

However, it is noted that we are in the midst of a major transition to the NDIS which is putting considerable pressure on some support providers. There may be cases where timing of the separation of support and housing needs to be carefully considered to support a smooth transition for both client and provider.

During the online survey and face to face consultation a number of support providers told the review that they have concerns about the separation of housing and support for the DHP properties. There were several reasons given:

1. The perceived difficulty that tenants with significant disability might have interacting with both a housing provider and a support provider.
2. Concern that CHPs do not have the necessary experience to work with this tenant cohort.
3. Concerns that costs to the tenant would be higher under a separate arrangement.
4. Concerns about the splitting of utility costs in group homes.
5. Concerns that ongoing tenancy conditions would not be maintained.
6. Concerns that DHP properties would be used for general rental and consequently the waiting list for people with a disability looking for suitable accommodation would grow.
7. For a small number of support providers, rent (or board and lodging) from DHP properties supports the funding of programs for the DHP tenants.

Several CHPs in SA already have significant numbers of tenants living with disabilities who require support, including tenants in group homes. They have developed expertise in tenancy management for these tenants and are skilled at working in partnership with support providers to resolve issues such as those listed as concerns 1-3 above. Some of these CHPs also have experience in working with tenants and support providers during the transition from joined to separate housing and support.

Consultation also strongly supported the need for written agreements (such as a Memorandum of Understanding) between the housing and support provider which helps to mitigate the concerns raised above.

The Review suggests that expertise in working with this tenant cohort and partnering with support providers should be a key selection criterion for choosing the providers for the future program (see Theme 4 on page 17) and that MOUs between CHPs and support providers should be highly encouraged.

In relation to the concern listed as 5 above, there have been reports by the Council for Intellectual Disability of terms in new contracts offered to residents of group homes in NSW[3] that would leave them vulnerable to eviction.

The NDIS SDA Guide to Suitability provides an opportunity for individual jurisdictions to lay down local conditions around SDA. The Review suggests that this would best be done via legislation that could apply to a broader range of tenancies and properties than the scope of this review. However, until there is specific legislative protection for the housing needs of those people living with a disability who require specialist accommodation, the Review suggests that rules should be established within the lease or Master Agreement for these properties to provide this protection. Suggestions are contained in Attachment 3.

A related issue that was raised by some support providers is a concern about the economics and logistics of providing support to tenants in a group home if they choose different service providers. This concern applies to all group homes not just those in the DHP and is considered to be outside the scope of this review.

Concern number 6 can be mitigated by having Renewal SA contractually require CHPs to maintain a

[3] http://www.nswcid.org.au/blog/beware-of-new-contracts-for-residents-of-group-homes.html

minimum number of housing outcomes for people with a disability in the lease or Master Agreement for these properties (refer page 9).

The Review acknowledges that historically some support providers have used income from rent or board and lodging to supplement funding for programs run for their tenants. Under the SDA Pricing Payments Framework (November 2015), the rent charged to tenants should be no more than 25% of the Disability Support Pension, plus Commonwealth Rent Assistance (if applicable). Boarding arrangements, to cover things like utilities and meals amongst others, can be negotiated separately but are subject to additional rules.

The maximum affordable rent is unlikely to sustain best practice tenancy and asset management as well as supplementing under-funded support programs. Where SDA is provided this is clearly intended by the NDIA to be a capital payment, not a support supplement.

The Review considers that Renewal SA will need to work with the NDIA, Disability SA and the affected support providers to understand cases where housing payments are being used to supplement support programs and to come to a workable solution for these properties on a case by case basis. The solution should work towards the long-term aim of separation of housing and support without putting existing programs or support providers at risk.

In some cases, additional funding available to participants when they transition to an NDIS plan may be sufficient to fund the support programs currently in place, without additional subsidy.

Successful partnerships between CHPs and support providers provide significant benefits to their joint clients. Partnerships between CHPS and Support providers are also likely to be very important to CHPs or private providers looking to build new accommodation with a view to attracting SDA. A partnership with a support provider with local knowledge of the NDIS participants that are likely to receive SDA funding would give the project a much higher likelihood of success, noting that residents in the development will still have their choice of support provider.

Questions
Do you agree that careful selection of CHPs can mitigate the concerns numbered 1-3 above? What issues/topics need to be covered in a Memorandum of Understanding between a housing and support provider? Do you agree that rules along the lines of those suggested in Attachment 3 would be of benefit in preventing the eviction of vulnerable people? Do you have any suggestions of how these could be improved? Do you have any other concerns or suggestions?

Theme 2 – Maximising the Number and Quality of Outcomes

One of the objectives of the Review is:

> "Maximising opportunities for increasing disability housing options for consumers in South Australia. This includes:
>
> - Maximising opportunities for choice by consumers in where and how they choose to live, including home ownership and shared equity options
> - Increasing the amount of housing stock which meets the changing expectations of people with a disability in SA.
> - Ensuring that disability housing stock is market-focussed and contemporary, including supporting innovative design and technology applications."

Based on the experience of the SA community housing sector with other programs such as the National Building Economic Stimulus Program and the Renewing Our Streets and Suburbs program, one way to stimulate the leverage of the DHP properties would be to transfer the properties to CHPs and either encourage or contractually require them to leverage the assets to fund the upgrade of existing stock or develop more contemporary housing for people with a disability to replace some or all of the legacy stock.

The properties could either be leased to CHPs or the ownership of the properties could be transferred to CHPs. The lease or transfer could be either at market price or at a subsidised price, noting however that a property leased from the SAHT at less than market rates may receive a reduced SDA payment.

It would be possible to place a statutory charge over a proportion of a property where ownership has been transferred to a CHP to enforce any requirements that the SAHT wants to place over the properties in

the new program. For example if properties were transferred at a 5% discount to market value, the SAHT could place a statutory charge over the properties where the value of the contribution repayment amount is 5% of the property value, in order to enforce minimum requirements that go beyond those enforced by the NRS and NDIS. These might include for example requiring SDA to be used for capital funding of properties for tenants with a disability, maintaining a minimum number of properties for this tenant cohort and/or including provisions along the lines of those set out in Attachment 3 in the Residential Tenancy Agreement for the tenants of these properties.

However, placing too many restrictions on CHPs about how they use the properties inhibits their flexibility and ability to innovate to improve outcomes for the tenant group. The Review suggests that a decision to place restrictions on the use of these properties should be made carefully and kept to the minimum necessary to achieve the desired objectives.

During the consultation to date we have heard:

- Most CHPs prefer to own the properties rather than lease them, but indicated that the preference strongly depends on the outcome of financial modelling.
- Support providers do not have a strong preference for whether properties should be owned or leased.
- Having ownership of the properties allows CHPs to manage the assets more strategically e.g. sell properties that are not suitable, redevelop adjacent properties that belong to different programs, shape their portfolio to meet customer demand.
- CHPs would want to own any new stock that they develop with the income from the DHP properties.
- CHPs said that having ownership of the properties would make it easier for them to facilitate private ownership by a tenant.
- While banks will lend against properties with a long-term lease, it is easier for CHPs to use properties that are owned as collateral.
- Banks and other financiers consider that the vacancy risk associated with SDA is quite manageable across a portfolio of properties.
- Banks and other financiers are however concerned about the technical possibility of SDA payments being reset at much lower levels when they are reviewed by the NDIS 5 years after inception and will tend to keep loans that rely on SDA to short terms to alleviate this risk.
- Housing needs to be well located close to transport and services.
- Contractual requirements between Renewal SA and the housing provider should specify the desired outcome but leave the provider to determine how to achieve the outcome.
- Older/unsuitable properties in the portfolio could be sold to fund the development of more contemporary housing options for the tenant group. Note however that temporary re-housing of this tenant group for the development period is not always easy (due to the special housing requirements some of them have) or desirable (due to the complexity/distress of moving for some tenants).
- It is important to establish the future program in such a way that the program properties that will not be eligible for SDA are also financially viable for providers.
- CHPs would still be interested in managing the DHP properties if they were leased and a long-term lease arrangement with development rights would be attractive.
- The terms and conditions of the lease would impact financial viability and therefore the interest from CHPs.
- Some CHPs were concerned that ownership may not be viable if they were required to pay market price for the properties, especially if SDA was not available to the tenants.
- Some suggested that the NBESP model where properties were transferred to CHPs at no cost was ideal because they have been able to leverage the properties '100%'.

- Some CHPs and support providers considered that the government should retain a proportion of the properties in order to act as 'provider of last resort' for tenants with particularly difficult behaviours

In summary, the strong view of stakeholders is that ownership of the stock (possibly with a statutory charge) has many advantages over a lease model, but wanted decisions to rest on financial modelling. The evidence is discussed below.

The Review considers that the suggestion of allowing the purchase of a DHP property by a tenant is a good outcome for that individual. The Review notes that there is a risk that such a property may not be retained for use by people with a disability in the long term (for example on the passing of the individual purchasing the property). However, on balance it is considered that such purchases should be encouraged and that the proceeds of any such purchase should be used towards funding a new rental property in the CHP's portfolio.

The Review also considers that properties where the tenant is not eligible for SDA must be financially viable for the CHP, as well as properties that do receive SDA and that this must take into account maintenance and upgrade costs. The ROSAS program has been structured in such a way that the rental income from the general social housing properties in the portfolio is sufficient for CHPs to undertake quality tenancy and property management of those properties and also to undertake redevelopment of some properties. This example shows that the same should be possible for the future program for the DHP properties.

SDA can be considered to be the 'cream' on top of the normal rental income and is intended by the NDIS to be used as a capital contribution for upgrades and new developments.

In relation to the suggestion that the government retain some properties in order to act as a provider of last resort, the Review considers that it is highly preferable for mechanisms to be established to enable non-government housing and support providers to provide high quality care to all people with a disability, including those with challenging behaviours. Feedback is sought from stakeholders on how this can best be achieved.

Financial modeling

Financial modeling of a number of potential scenarios has been undertaken by Sphere Consulting and Renewal SA to test options for the new program to succeed the current DHP.

The scenarios modeled were:

1. **Fee for Service** – the CHP manages the properties and is responsible for all maintenance and the SAHT pays the CHP a fee for doing so. The properties would not be eligible for CRA and SDA would be paid to the SAHT. The summary table below shows the outcome if the fee was $5,000 per property per year.
2. **Lease** – the CHP pays a lease fee to the SAHT (modeled below as $5,200 per property per year). The CHP collects rent from tenants including CRA and any SDA and is responsible for all expenses associated with the property. Ownership of original and newly developed properties is with the SAHT.
3. **Purchase of stock for redevelopment. Peppercorn lease for other properties** - stock being redeveloped is purchased by the CHP at the value of the land. No other payments are made by the CHP sector to SAHT. The CHP sector pays all expenses associated with the properties, receives all eligible CRA and SDA funding.
4. **Purchase of stock for redevelopment. Lease at $5,200 p.a. for other properties** - stock being redeveloped is purchased by the CHP at the value of the land. The CHP pays a lease payment to SAHT of $5,200 per annum for the other properties. The CHP sector pays all expenses associated with the properties, and receives all eligible CRA SDA funding.

Originally it was intended to model a scenario where all properties were purchased by CHPs, however feedback during consultation indicated that this may not be viable. Options 3 and 4 are considered more viable variations on this scenario.

The table below summarises the results of the modelling for the four scenarios over a 20-year period. Additional outcomes in this table means additional outcomes from the reinvestment of surplus, so these are outcomes above the minimum 238 new properties expected. More detail about the assumptions for the financial modelling is available in Attachment 4.

Scenario[4]	**1**	**2**	**3**	**4**
Properties at commencement	342	342	342	342
Properties demolished	-88	-88	-88	-88
New properties built	238	238	238	238
Additional properties purchased with CHP surplus[5]	0	148	223	136
Additional properties purchased with SAHT surplus[6]	-48	101	37	94
Properties estimated at the end of the 20-year period[7]				
- With SAHT	444	741	291	348
- With CHPs	0	0	461	374
TOTAL	444	741	752	722

[4] Modelled over 20 years
[5] From reinvestment of CHP surplus at end of year 20
[6] From reinvestment of SAHT surplus at end of year 20
[7] Excludes the 100 properties already being developed between late 2017 and September 2018

Discussion

Under a fee for service model the SAHT would receive any SDA funding and undertake the redevelopment. This has the advantage for the CHP sector that the SAHT would be taking the risks associated with uncertainties of the SDA funding. However, this model is not recommended as it does not maximise CRA, and at a fee of $5,000 per property per year results in no surplus for the CHP sector and a loss for the SAHT. Redevelopment would only be done by the SAHT which does not have the tax advantages of the CHP sector. It results in the lowest number of outcomes.

Scenarios 2, 3 and 4 all maximise CRA and SDA. All three scenarios generate significant surpluses which can be used to develop additional properties beyond those expected to be required for tenants who will receive SDA. However, in Scenario 2, CHPs take risk and expend effort to redevelop 238 outcomes which they do not own and would have to return to the SAHT at the end of the 20-year period. This is unlikely to be attractive to CHPs.

Scenario 3 results in a slightly higher number of new and additional outcomes according to the financial model. The CHPs would own the 238 baseline properties that they redevelop plus the 148 properties purchased from surplus at the end of the 20-year period. SAHT would own 101 properties purchased with the SAHT surplus at the end of the 20-year modeling period.

The financial modelling supports the consultation feedback that CHPs can maximise the amount of new contemporary stock if they have ownership of properties which gives them a stronger ability to leverage.

Under the assumptions used in modelling this scenario, the CHPs would own the land to be redeveloped and the outcomes of that development and lease the other properties at a peppercorn rent and pay all costs related to the properties. This lease model is similar to the model used for the ROSAS program.

The Review supports a modified version of Scenario 3 as the basis for the new DHP program. The Review suggests that the CHPs could purchase the properties to be developed at a small discount to the market value (e.g. 5%) to allow a statutory charge to remain on the properties. This would allow the SAHT to set rules such as reinvesting the SDA for capital costs associated with disability accommodation, maintaining the number of properties for people with a disability and rules such as those suggested in Attachment 3.

In addition, the Review notes that CHPs could be expected to produce higher outcomes than those in the model as it would be expected that surpluses are reinvested during the term (and compounded), rather than at the end of the 20-year modelling period as assumed for simplicity of modelling.

The details would be the subject of contract negotiation between the Renewal SA and the selected CHPs.

Questions
Do you agree that selling the DHP properties that are to be redeveloped to CHPs with a 5% discount to market value and a 5% statutory charge is a good balance between maximising housing outcomes and maintaining other objectives of the new program? Are there additional mechanisms that can be used to encourage innovation in the funding and design of new dwellings for people living with a disability? Do you agree that purchase of a DHP property by a tenant should be encouraged, and that the proceeds should be used to fund a new rental property in the CHP's portfolio? Do you agree that it is preferable for non-government providers to provide care for all people with disabilities rather than having government act as a provider of last resort? What mechanisms would assist providers in this regard?

Theme 3 – Special Cases

During the consultation for this Review, some providers raised concerns that the DHP properties they currently lease have particular characteristics that do not make them suitable for transfer to CHPs. For example, some DHP properties are used for respite. Clients staying in a respite property are generally only there for a short term, in some cases only a few hours.

These arrangements do not lend themselves to a formal accommodation agreement between a housing provider and a client.

There is also one DHP property that is being used for administration.

In these cases where there cannot be a formal accommodation agreement there is less reason to involve a CHP and they might best be continued to be managed by a support provider.

The Review suggests that respite properties and other properties which are not being used to provide long term accommodation should be shifted from the DHP to the Specialised Housing Program so that the DHP has consistency.

Questions
Do you think that properties which do not provide long term accommodation for people living with a disability should be transferred out of the DHP program and managed by a support provider? Are there any types of accommodation that you consider should be transferred out of the DHP to the Specialised Housing Program?

Theme 4 - Selecting Housing Providers

The selection of CHPs to own or manage the properties in the successor to the DHP program is extremely important for the future success of the program.

The CHPs chosen must have a number of capabilities in order to do this. The Review considers that the most appropriate mechanism to select the CHPs for the future program is a competitive process using criteria similar to the following:

- demonstrated experience in working with disability service organisations to deliver quality housing outcomes for people with disabilities
- demonstrated ability to negotiate and maintain successful collaborative partnerships and can provide evidence of existing relationships with support providers
- demonstrated successful experience and current capacity to ensure a smooth transition for tenants from their current landlord to the new provider
- demonstrated experience in delivering services in a culturally sensitive manner
- current registration under the National Regulatory Scheme for Community Housing
- registered as a housing provider with the NDIS
- experienced key personnel, demonstrated track record, solid partnership arrangements and careful project planning
- demonstrated ability to leverage assets and to redevelop stock, including the relocation of vulnerable and complex tenants to enable a redevelopment project.

The Review also suggests that Renewal SA consider having a support provider representative on the selection panel for the selection of the CHPs to ensure that this perspective is an integral part of the selection process.

Stakeholders have also given feedback in relation to the number of CHPs that should be selected for the future program. There are two possible approaches:

- deliberately select only 2-3 CHPs that have the required skills and capabilities in order to build size and scale with a view to supporting greater leverage and numbers of housing outcomes, or
- divide the properties amongst all the CHPs that meet a required minimum standard in relation to the selection criteria in the tender or other competitive process. This might be around 6-8 providers.

Currently the DHP portfolio is around 350 properties, and will grow to about 450 in September 2018 when the 100 new builds are due to be completed. The Review suggests there is merit in restricting the number of CHPs to receive properties in the new program to three to five providers to build size and scale. Less than three providers would probably not provide sufficient competition for innovation. The program is likely to be less efficient with a much larger number of providers.

The Review considers that it makes sense to select providers based on their capabilities and then allocate the DHP properties to the selected providers in clusters that are geographically close together for efficiency of management. CHPs should be given the opportunity to indicate their preference and capacity in the relevant geographic areas. This is consistent with stakeholder feedback.

Questions
Do you agree with the criteria and process suggested for selection of the CHPs for the future program? Do you have a view about the ideal number of housing providers in the new program? Do you have any other suggestions about the criteria or the process for selecting housing providers?

Theme 5 - Principles for the Future Program

The following principles are suggested by the Review as the foundation for the new program to succeed the DHP, noting that this does not prevent of exclude actions in relation to disability housing that are outside of this program:

- Current and potential future tenants must be placed front and centre in making decisions about the future of the program.
- The program should support choice and control of people living with a disability and maximise quality contemporary options for their living arrangements.
- In general, property and tenancy management are best done by specialist housing providers, but there are cases such as respite facilities where these cannot be separated. These properties should be shifted out of the DHP.
- Transition from property management by a support provider to a CHP must be carefully managed to ensure a smooth transition for tenant and provider, with careful consideration required where rent is subsidising support programs.
- Housing providers selected to lease or own the properties in the new program must have demonstrated excellence in working with support providers and with tenants with significant disabilities.
- Financial arrangements must enable the management or ownership of properties to be financially viable whether or not the tenant living in the property is eligible for SDA.
- Any SDA received in relation to these properties should be reinvested for capital purposes related to housing for people on low incomes with a disability.
- Redevelopment of sites with old unsuitable stock is a desirable outcome. Moving current tenants to enable this will require time, sensitivity and strong partnerships between housing and support providers.
- The purchase of a DHP property by a tenant should be encouraged, with a view to using the proceeds to fund a new rental property in the new program.
- Housing providers should be contractually required to increase and improve the number of housing outcomes for people living with a significant disability who are unable to live independently in the community.

Questions
Do you agree with these suggested principles for the future DHP program? Are there any other principles that you think should be added?

Attachment 1 - Governance of the Review

The review is being steered by Renewal SA via a Project Steering Group comprising representatives from:

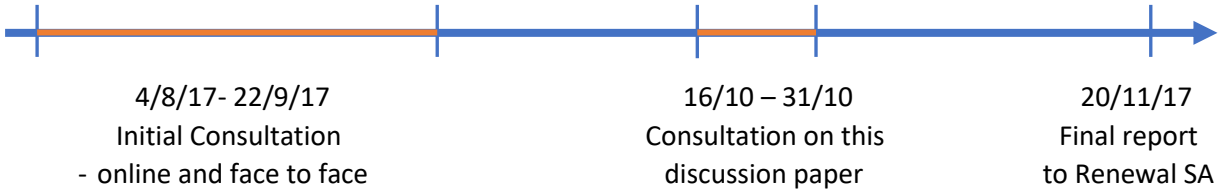
- Renewal SA
- Housing SA
- Disability SA
- ak advisory.

A Project Reference Group allows for high level input from key stakeholders at various stages of the project, in addition to the consultation process, and comprises representatives from the following:

- Renewal SA
- Housing SA
- Disability SA
- Community Housing Council of South Australia
- National Disability Services
- Public Advocate
- Community Visitors Scheme
- ak advisory.

Recommendations from the Review will be considered by Renewal SA. Following this consideration, Renewal SA will make a series of recommendations to the SAHT Board in relation to the program.

Attachment 2 – Consultation



Consultation in the preparation of this discussion paper has been extensive, including the following steps. Feedback from the consultation to date is included in the main body of this discussion paper.

- An online survey of community housing providers and disability support service providers was conducted in August 2017 to capture their suggestions and understand any issues or concerns in relation to the review. Half day workshops with these providers were also conducted on 30 and 31 August 2017 to gain a deeper understanding of the feedback from the online surveys.
- A meeting to consult lenders and investors in community and disability housing was held on 1 September to gain an understanding of the requirements of financiers to facilitate leverage against the DHP properties.
- Telephone and face-to-face consultation was undertaken with a sample of tenants of disability housing properties during September 2017 to better understand their goals and concerns in relation to their housing and the housing/support interface.
- A meeting of the Reference Group was convened in August 2017 to seek guidance about the consultation process for the review and key considerations that should be taken into account to meet the objectives of the review.
- Meetings were held in August 2017 with key personnel from Housing SA and Disability SA to capture their suggestions and understand any issues or concerns in relation to the review.

Attachment 3 – Suggested Additional Terms for Accommodation Agreements

DHP lessees currently use a variety of accommodation agreements for residents and it is noted that the NDIS will require certain minimum conditions in agreements with participants who receive SDA funding (see pages 8 to 10 of the NDIS Terms of Business). It is suggested that accommodation agreements between the tenants of DHP properties and the selected housing providers include the following requirements:

- Where the behaviour of a tenant is causing an immediate threat to safety of residents/staff, the housing provider must:
  - work with the tenant to seek an urgent NDIS plan review to approve interim alternative housing/support arrangements and identify the most appropriate longer-term housing option;
  - seek appropriate resources in the participant's NDIS plan to cover associated costs that arise as a result of their disability
- Where a provider intends to cancel an accommodation agreement without cause (this may arise if a house is old needs demolishing or there are ongoing and unresolvable tenant disagreements), providers should ensure that a participant is immediately assessed for support coordination funding by the NDIS to ensure that the participant can properly investigate other housing options or be approved for a different type/location of SDA.

All of the above would be subject to minimum notice periods.

Attachment 4 – Financial Modelling Method

The modelling assumed that initially there are 342 lease properties in the program. It assumed that a new property must be built for each of the 200 tenants eligible for SDA funding over a 6 year period and an additional 20 properties are purchased initially to assist with relocations.

There are approximately 2.3 tenants per dwelling in the 342 original properties. It is assumed that each property redeveloped can generate a density uplift of 2.5 to 1. It is therefore assumed that a minimum of 88 of the existing properties must be redeveloped (equal to 200 tenants /2.3 tenants per dwelling) to provide enough dwellings for the SDA ready clients.

This results in 218 new dwellings (88 x 2.5) overall, in addition to the 20 properties purchased initially, so in total there are 238 new NDIS/SDA ready dwellings over the 20 years of the program. Although there are only 200 tenants assumed to be eligible for SDA initially, it is considered that a slight increase in the number of available dwellings is positive to support demand from other potential tenants.

Surplus revenues above what is required to pay for development costs and/or debt for redevelopments are accumulated as retained earnings. For simplicity of modelling, it has been assumed that this revenue could either be retained by the CHP sector or returned as a payment to SAHT at the end of the 20-year period. In practice it would be preferable for the surplus to be reinvested into new supply as it is earned during the 20-year period.

The surplus revenues could be reinvested by the CHP sector (or SAHT) into new stock and a simple calculation is used to show the additional impact this could have on stock numbers, taking the final value at the end of the 20-year period and dividing this by the average value of a new SDA ready property in 20 years' time.

A 20-year cash and NPV result were also calculated for SAHT under each scenario.

Four scenarios were modelled.

1) **Fee for Service Scenario**

Under this scenario the CHP manages the stock and SAHT pays the CHP a fee per property. The SAHT receives the SDA funding and has the risks associated with the SDA. SAHT undertakes the redevelopments of stock.

This scenario allows for little or no leveraging of additional properties by the CHP sector as the revenue would be in part or completely offset by costs associated with managing the properties.

The main drawbacks of this scenario are that:

- The tenants would not be eligible to receive CRA, and:
- SAHT cannot claim GST credits back on construction or maintenance expenditure, and:
- There is little or no leveraging to be generated by the CHP sector.

It is important to note that SAHT would be able to access SDA funding over stock and could use the net surplus that it generates to construct new stock.

In terms of the 3 scenarios the financial results for SAHT are as follows:

FFS fee	**$2,500**	**$5000**	**$7,500**

SAHT results

Surplus (deficit) 20 yr.	$54,488,408	($29,204,097)	($105,394,132)
NPV (20 yr. result)	($4,696,518)	($37,346,190)	($68,314,003)
New NDIS Dwellings	238	238	238
Final Portfolio Size	492	492	492
Total clients	838	838	838

If the entire surplus revenue at the end of 20 years was reinvested into new stock the SAHT could purchase the following amount of properties:

FFS fee	**$2,500**	**$5000**	**$7,500**
Additional properties	90	0	0

There is no net surplus for SAHT under the $5,000 and $7,500 FFS scenarios, therefore no additional stock could be purchased. Under the $2,500 FFS scenario there would be a surplus which could be reinvested and around 90 additional properties could be purchased. However it is noted that a fee of $2,500 would probably not be viable for CHPs.

NOT RECOMMENDED.

2) Lease scenario

Under this scenario a Lease Fee of $5,200 p.a. per property was used as the assumed annual payment from the CHP to the SAHT for each of the properties under management. Government revenue is then the Lease Fee multiplied by the number of properties under lease (the initial properties transferred plus additional properties developed under the program).

The CHP is assumed to be responsible for all expenses associated with the properties and receives SDA funding over the properties eligible to receive this funding and the relevant CRA. The CHP develops on SAHT land but does not make a payment back to SAHT for this land. Ownership in the new and original stock remains with the SAHT.

SAHT could consider taking any surplus revenue that the CHPs have generated at the end of the 20-year lease period, and the impact of including this revenue was also considered.

CHP results

Surplus (deficit) 20 yrs.	$81,473,119
New NDIS Dwellings	238
Final Portfolio Size	492
Total Clients	838

SAHT results

Assumes all properties make a lease payment back to SAHT:

Surplus (deficit) 20 yrs	$61,422,041 (lease payment only)
Surplus (deficit) 20 yrs	$142,895,160 (including CHP surplus revenue)
NPV (20 yr. result)	$28,503,837 (lease payment only)
NPV (20 yr. result)	$46,768,006 (including CHP surplus revenue)

If the surplus funds at the end of the 20-year lease were reinvested the following outcomes would be achieved:

	Surplus	Additional Properties
CHP	$81,473,119	148 properties
SAHT	$61,473,119	101 properties
SAHT (CHP surplus)	$142,895,160	235 properties

This assumes that the CHP sector can claim back GST on land and development costs, whereas SAHT cannot.

The main advantages of this scenario are:

- SDA and CRA are maximised
- SAHT receives a constant income stream across the period.
- Properties are retained in SAHT's ownership.

The main disadvantages are:

- CHP does not hold ownership in the new stock.
- CHP sector generates a smaller surplus than under Scenario 3.

Under this scenario the CHP sector generates a significant surplus which could be redirected to developing new outcomes. The SAHT also generates lease income which it could use to build new stock. This scenario maximises rental income from CRA and the CHP has access to SDA funding which it uses for redevelopment purposes. However, the CHP would not own the stock it has redeveloped at the end of the 20-year period and this is likely to be unacceptable to the CHP sector.

3) Sale to CHP and peppercorn lease scenario

Under this scenario the stock being redeveloped is sold to the CHP sector, at the value of the land, and all other stock is leased at peppercorn rent. No other payments are made by the CHP sector to SAHT. The CHP sector pays all expenses associated with the properties, enrols dwellings in NDIS and receives all eligible SDA funding.

The land value for the development stock is assumed at $200k per dwelling (approximate average land value across all of the lease stock). The CHP purchases 88 properties in total for redevelopment.

CHP results

Surplus (deficit) 20 yrs	$123,405,907
Net Assets 20 yrs	$229,956,419
-Fixed Assets	$106,550,512
-Cash	$123,405,907
New NDIS Dwellings	238
Final Portfolio Size	492
Total Clients	838

SAHT results

Government would receive $22.3m in revenue from land sales from the CHP sector over the first 10 years of the program. On top of this, if SAHT was to receive the CHPs net surplus at the end of the program (in 20 years time) there would be a transfer of an additional $123m to Government.

Surplus (deficit) 20 yrs.	$22,260,901 (land sale payment only)
Surplus (deficit) 20 yrs	$145,666,808 (including CHP surplus revenue)
NPV (20 yr. result)	$16,421,980 (land sale payment only)
NPV (20 yr. result)	$44,086,398 (including CHP surplus revenue)

Alternatively, the CHP sector could use these funds for the development of additional properties for the social housing sector. Use of surplus funds at end of the 20 year lease would generate the following outcomes:

	Surplus	Additional Properties
CHP	$123,405,907	223 properties
SAHT	$22,260,901	37 properties
SAHT (CHP surplus)	$145,666,808	240 properties

This assumes that the CHP sector can claim back GST on land and development costs, whereas SAHT cannot.

The main advantages of this scenario are:

- SDA and CRA are maximised
- SAHT receives payment for land in the first 10 years of the program.
- The CHP sector generates a higher net surplus than under Scenario 2 which it can reinvest into the development of new stock.
- The CHP would be able to access CRA and SDA over the new stock which would in turn result in additional stock generation.

The main disadvantages:

- Properties retained in SAHT's ownership drops by 88.

Under this scenario the CHP sector accesses CRA and SDA funding to develop new stock on purchased SAHT sites which it will own. Revenue back to the SAHT is less than the lease scenario, however there is a large surplus for the CHP sector at the end of the lease which it could invest in new outcomes. Given the tax advantages of the CHP sector and their access to CRA and SDA this scenario generates the largest potential reinvestment into new stock.

4) Scenario 4 Lease and sale scenario

Under this scenario the stock being redeveloped is sold to the CHP sector, at the value of the land. The stock that is sold will be under CHP ownership and the CHP will not make any further payments on this stock back to SAHT. Unlike Scenario 3, under this scenario the remaining lease properties continue to make a lease payment back to SAHT of $5,200 per annum per property. The CHP sector pays all expenses associated with the properties, enrols dwellings in NDIS and receives all eligible SDA funding.

The land value for the development stock is assumed at $200k per dwelling (approximate average land value across all of the lease stock – see 'Operational Assumptions' tab). The CHP purchases 88 properties in total for redevelopment.

<u>CHP results</u>

Surplus (deficit) 20 yrs	$75,357,781
Net Assets 20 yrs	$181,908,292
-Fixed Assets	$106,550,512
-Cash	$75,357,781
New NDIS Dwellings	238
Final Portfolio Size	492
Total Clients	838

<u>SAHT results</u>

Government would receive $22.3m in revenue from land sales from the CHP sector over the first 10 years of the program. Under this option SAHT would also receive $34.6m in lease payments over the period of the lease. On top of this, if SAHT was to receive the CHPs net surplus at the end of the program (in 20 years time) there would be a transfer of an additional $75.4m to Government.

Surplus (deficit) 20 yrs.	$56,843,769
Surplus (deficit) 20 yrs	$132,201,550 (including CHP surplus revenue)

NPV (20 yr. result)	$33,266,647
NPV (20 yr. result)	$50,159,916 (including CHP surplus revenue)

Alternatively, the CHP sector could use these funds for the development of additional properties for the social housing sector. Use of surplus funds at end of the 20 year lease would generate the following outcomes:

	Surplus	Additional Properties
CHP	$75,357,781	136 properties
SAHT	$56,843,769	94 properties
SAHT (CHP surplus)	$132,201,550	218 properties

This assumes that the CHP sector can claim back GST on land and development costs, whereas SAHT cannot.

Under this scenario additional revenue comes back to the SAHT in the form of lease payments on the remaining stock, on top of sales revenue from the purchases the CHP sector makes. This shifts the overall surplus from the CHP sector back to the SAHT, and reduces the overall number of outcomes that can be delivered as compared to Scenario 3, but generates a bigger cash surplus for the SAHT.