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Country Housing Authority

Annual Report

2018 - 2019

Administered on behalf of
Country Housing Authority by

Keystart.

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STATEMENT OF COMPLIANCE

For year ended 30 June 2019

HON. PETER TINLEY AM MLA

MINISTER FOR HOUSING

In accordance with section 63 of the *Financial Management Act 2006*, we hereby submit for your information and presentation to Parliament, the Annual Report of the Country Housing Authority for the financial year ended 30 June 2019.

The Annual Report has been prepared in accordance with the provisions of the *Financial Management Act 2006*.



Glyn Yates
Chairman of
Country Housing Authority

23 August 2019



Caterina Prodonovich
Board Member of
Country Housing Authority

23 August 2019

OVERVIEW

CHAIRMAN'S REPORT

There remains a need for quality housing in rural and remote Western Australia and I am delighted that the Country Housing Authority (the Authority) provides vital support to people seeking appropriate housing options through its home loan program.

The Authority offers unique housing and home improvement funding options to the farmers, pastoralists and employers of rural and remote Western Australia that are unavailable or have limited availability from the major lenders.

The Authority's home loan program added a further 8 approved loans at a value of \$1.6 million in 2018-19.

The Authority is self-funded and provides rural customers with financial assistance through its operating activities, placing no demand on the consolidated fund.

The service provided by Keystart Home Loans on behalf of the Authority has been well-accepted and well-delivered in rural communities across Western Australia.

The Country Housing Authority Board meets on a regular basis to provide sound governance direction on the activities and future opportunities of the Authority.

I would like to express appreciation to the Board members for their contribution over the last 12 months as they continue the provision of quality and affordable housing across rural and remote Western Australia.

I would also like to acknowledge the CEO and staff of Keystart Home Loans for their efforts throughout the past year and look forward to an equally successful and productive 2019-20.



Mr Glyn Yates
Country Housing Authority
Chairman

OPERATIONAL STRUCTURE

Role

The role of the Authority is to lend for affordable housing in rural and remote Western Australia to farmers, pastoralists, rural businesses and local government, where home loan finance options are otherwise limited.

While the Authority's lending practices may differ from commercial lenders, the Authority recognises the need to deliver its service in a sustainable way by minimising risk and maximising delivery to those who require the Authority's services. Its lending philosophy takes into account changing seasonal circumstances in rural and remote Western Australia. The Authority also considers lending for innovative housing solutions including energy efficiency options.

The Authority's clients are farmers, pastoralists and rural businesses (including local government) residing or operating in rural and remote Western Australia.

Housing finance can be used for the placement or erection of a dwelling, additions and alterations to modernise an existing dwelling, installation of renewable energy systems (farmers only), and the purchase of land on which to erect a dwelling.

Enabling Legislation

The Authority was established in July 1998, to carry out the functions under the *Country Housing Act 1998*.

The purpose of the legislation is to facilitate the provision of:

- housing in rural areas for farmers, their employees and retired farmers; and
- adequate and suitable housing in rural areas for persons engaged in certain businesses and occupations.

Responsible Minister

The Authority is a statutory authority, being directly responsible to the Minister for Housing, Hon. Peter Tinley AM MLA, for the administration of the *Country Housing Act 1998* for the period ending 30 June 2019.

ORGANISATIONAL STRUCTURE

Mission

To provide housing loans to Western Australian farmers and rural businesses where finance options are limited.

Organisational Chart

A Service Level Agreement (SLA) was established in 2009 which prescribes that Keystart Loans Ltd (“Keystart”) is to administer the operations of the Authority on its behalf. This SLA remains in place and is reviewed on an annual basis by the Board to ensure it remains effective.

The Chief Finance Officer of the Authority is the Keystart Chief Financial Officer.



Country Housing Authority Board

The Authority is governed by a board accountable to the Minister for Housing, and Keystart staff provide the management service. Mr Glyn Yates was paid \$44,461, Ms Donna Lynch was paid \$20,121 and Ms Caterina Prodonovich was paid \$10,512 in 2018-19.

The *Country Housing Act 1998* requires up to six board members and is to include three members who have knowledge of and experience in any of the fields of planning, housing, finance, farming, industry, commerce or any other field relevant to the functions of the Authority. The remaining member during the year was an officer from the Department of Treasury.

Board members bring a broad background of knowledge and experience from professional and business areas, including planning, commerce, finance, the housing industry, local government and farming.

Board Profiles

Mr Glyn Yates (Chairman)

Mr Yates has extensive experience in the community banking and financial services industry (community bank director and Chair), local government (councillor and Deputy Shire President) and as a director of SMEs in regional Western Australia.

Appointed August 2015 to current

Ms Donna Lynch

Ms Lynch has comprehensive expertise in rural policy development and experience in rural production in Western Australia.

Appointed August 2011 to current

Ms Caterina Prodonovich

Ms Prodonovich is the CEO of the Regional Chambers of Commerce and Industry of WA and sits on varied business stakeholder bodies and committees. She brings extensive knowledge and experience in the small businesses sector, housing affordability and community and economic development in regional communities throughout Western Australia.

Appointed August 2015 to current

Mr Sean Cameron

Mr Cameron is currently Director, Resourcing at WA Treasury and has oversight of approximately 50 agencies. He has over 30 years' experience in this industry.

Appointed October 2014 to current.

During 2018-19, the Country Housing Authority Board met on 4 occasions.

	Full Board of Directors	
	A	B
Glyn Yates	4	4
Donna Lynch	4	4
Sean Cameron	4	4
Caterina Prodonovich	4	4

A = Meetings held during the time the Director was in Office

B = Number of meetings attended

Functions of the Board

As a statutory authority, the Board is the Authority's governing body and is responsible for administering the *Country Housing Act 1998*.

Accountability and Independence

The *Country Housing Act 1998* outlines the required standards for board members under the *Statutory Corporations (Liability of Directors) Act 1996*. Board members acknowledge their position of trust in making decisions that affect the welfare, rights or entitlements of the community and individuals that are serviced by the Authority. Board members act with professional integrity, possess a clear understanding of their public duties and legal responsibilities, act honestly and exercise due care and diligence.

The Board has the independence to determine policies and control the activities of the Authority, subject to the provisions contained within the *Country Housing Act 1998* and other statutes.

Ministerial approval is required for transactions relating to non-commercial assistance.

Contracts with Senior Officers

Board members do not have an interest in any existing or proposed contract made with the Authority. The Authority does not employ any senior officers. Keystart staff administer the operations of the Authority in accordance with the Service Level Agreement (SLA) that exists between Keystart and the Authority.

Indemnification of the Board

During the period ending 30 June 2019, the Authority paid insurance premiums in respect of Directors' and Officers' liability insurance on a claims basis for any past, present or future board member, secretary, executive officer or employee of the Authority.

Business Risk

The Authority has implemented a risk management program in accordance with Treasurer's Instruction 825 and Australia-New Zealand ISO 31000:2018.

The Authority sources external expert advice on risk management as required on specific issues and procedures, and ensures the risk management processes and procedures are current and incorporated within the operating and Board reporting systems.

Financial Risk

The Authority manages financial exposure on an ongoing basis, having regard for interest rates, liquidity and credit risks. Monitoring financial ratios against targets and regular reporting to the Board ensures the Authority manages risks associated with finance and treasury activities.

The Authority's customer base is situated in rural and remote areas of Western Australia. Factors such as seasonal conditions and commodity prices can impact on the stability of local economies. The risk associated with this was recognised in the development and management of financial policies. The Authority is not materially exposed to any particular sector or region of the State.

Internal Audit

The Authority uses the internal audit services of Deloitte under a contract signed by Keystart. The Authority's Board provides an overview for audit and review in accordance with the internal audit plan.

Organisation Behaviour and Ethics

The Board of the Authority has adopted a Code of Ethics and Conduct for its members, reflecting a commitment to the highest levels of service and ethical standards.

The Keystart Code of Ethics and Conduct Policy applies to those Keystart staff who administer the operations of the Authority, in accordance with the SLA that exists between Keystart and the Authority.

The Board and Managers of the Authority maintain the highest professional and ethical standards and strive for relationships that are based on fairness, honesty and trust.

Ethical Consumer Compliance Policy

As a consumer organisation, Keystart has ethical responsibilities and legal obligations in the way it interacts with clients.

This policy is an adjunct to the Code of Ethics and Conduct policy. The Authority, through its contract arrangements, abides by Keystart's Ethical Consumer Compliance policy.

Code of Conduct

In compliance with the Western Australian Public Sector Code of Ethics, the Authority has adopted Keystart's Code of Ethics and Conduct.

Training and Development

Training and development is provided to Keystart staff who administer the operations of the Authority in accordance with the SLA that exists between Keystart and the Authority.

Financial Management

The Authority's comprehensive policy and procedural recommendations on risk management issues, capital adequacy and other financial operations have been implemented.

The Authority has a formalised Loan Risk Management Policy in place. Each application for assistance is considered in that context.

Occupational Health and Safety

Keystart ensures staff are apprised of occupational health and safety issues and their personal obligations to ensure a safe working environment. No claims were received under occupational health and safety provisions during 2018-19.

Equity and Access

Keystart provides staffing to administer the operations of the Authority. Keystart is responsible for ensuring adherence to disability service plan requirements. The current premises are accessible to staff and visitors. Keystart's premises meet the disability access requirements.

The majority of the Authority's customers are country-based and officers conduct business primarily through telecommunications and personal visits.

Customer Complaints

No formal or informal complaints were received from customers, either directly or through a third party during 2018-19.

This is reflective of the Authority's commitment to customer satisfaction and delivering a personalised service.

Freedom of Information

The *Freedom of Information Act 1992* created a general right of access to documents held by state and local government agencies. The Act requires agencies to make available details about the kind of information they hold and enables persons to ensure that personal information held by Government agencies about them is “accurate, complete, up to date and not misleading”.

Records and files held by the Authority cover two main areas: policy and administration files, and property files. This information can be viewed by members of the public upon application to the FOI Coordinator, Corporate Information, Department of Communities, PO Box 6334, East Perth WA 6892.

During the 2018-19 reporting period, no applications were received for access to personal information under the Act.

Marketing, Promotion and Sponsorship and Advertising

The Authority’s home loan products are promoted by Keystart, through advertisements and exhibits at numerous regional events throughout Western Australia including field days and expos. These exhibits and events provide excellent opportunities for attending representatives and other prospective customers to become aware of the services offered by the Authority. The housing loan products are also promoted on the Keystart website at www.keystart.com.au.

Raising awareness continues to be a large part of the regional marketing to ensure housing assistance is provided throughout rural and remote Western Australia.

Section 175ZE of the *Electoral Act 1907* requires public agencies to report details of expenditure to organisations providing services in relation to advertising, market research, polling, direct mail and media advertising. The Authority has not incurred expenditure of this nature.

Publications

Application forms for each of the Authority’s loan programs are provided including detailed explanatory information and current terms and conditions of the loan, which are updated regularly to ensure accuracy. Application forms can be obtained by calling the Country Housing office toll free on 1800 158 200; or by making an online enquiry at www.keystart.com.au.

The Annual Report is available on request from the Authority or via the website www.keystart.com.au/about-us/useful-publications.

Record Keeping

The Department of Communities provides records services for the Authority and compliance with the *State Records Act 2000*.

Administered Legislation

The Authority administers the *Country Housing Act 1998* and in the conduct of its business is subject to a wide range of State and Commonwealth statutes.

Other Key Legislation Impacting on the Authority's Activities

In the performance of its functions, the Authority has exercised all reasonable care to comply with relevant written laws, as amended from time to time, including:

- *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth)
- *Auditor General Act 2006*
- *Disability Services Act 1993*
- *Electoral Act 1907*
- *Equal Opportunity Act 1984*
- *Fair Trading Act 2010*
- *Financial Management Act 2006*
- *Freedom of Information Act 1992*
- *Housing Act 1980*
- *Industrial Relations Act 1979*
- *Land Administration Act 1997*
- *Local Government Act 1995*
- *Minimum Conditions of Employment Act 1993*
- *National Consumer Credit Protection Act 2009* (Cth)
- *Occupational, Safety and Health Act 1984*
- *Public Interest Disclosure Act 2003*
- *Public Sector Management Act 1994*
- *State Records Act 2000*
- *State Supply Commission Act 1991*
- *Statutory Corporations (Liability of Directors) Act 1996*
- *Transfer of Land Act 1893*

AGENCY PERFORMANCE

Report on Operations

VALUES

The Authority places importance on its values as they shape the way the Authority operates.

Accountability – Taking responsibility for actions and outcomes.

Integrity – Abiding by company policies to protect clients, staff and the business.

Professionalism – Working in a team environment to carry out duties in a way that instils confidence in clients and colleagues.

Loyalty – Dedication to commitments and obligations in the workplace.

Confidentiality – Respecting the privacy principles of the business and the privacy rights of others.

Commitment to customer service – Striving to meet the needs of customers in an environment of regular change.

KEY DRIVERS

The Authority identified the following key drivers and strategic goals as being essential for the effective performance of its functions.

Affordable Housing Loan Products

- To provide affordable and accessible home loans that meet the needs of the Authority's clients where housing finance options are otherwise limited.

Awareness and Education

- To develop community awareness of the Authority's role through a Strategic Marketing Plan.
- Use networks effectively to obtain customer feedback and gather market intelligence.

Customer Service

- To offer a professional service to Authority customers and provide a holistic approach throughout the life of the loan.
- Establish best practice turn-around timeframes and achieve customer satisfaction for both new and existing clients.
- Effective utilisation of the SLA between the Authority and Keystart Loans Ltd.
- To maintain good corporate governance and fiduciary duties and meet compliance obligations.
- To adhere to the Authority's lending philosophy and its policies.

Compliance

- To comply with all relevant legislation, statutes and government policy.
- To maintain good corporate governance and fiduciary duties and meet compliance obligations.
- To stay within government borrowing limits.
- To adhere to the Authority's lending policies.

Major products provided by Country Housing Authority

Housing Finance Access Programme (HFAP)

HFAP was developed in recognition of affordable housing finance not necessarily being readily available in some country areas of Western Australia compared with availability and access in metropolitan and/or major regional areas.

Assistance is provided to farmers, pastoralists and rural employers, including local government, for housing themselves or their employees. By ensuring that farmers and rural employers have access to housing for themselves, their dependants and their employees, the Authority encourages the sustainment and development of country communities.

Security for HFAP loans is generally in the form of a registered mortgage.

In 2018-19, 8 farmers, pastoralists and businesses were approved assistance under the HFAP, with loan approvals totalling \$1,649,000.

Natural Disasters

In late 2011 the Board approved a natural disaster programme. When a natural disaster occurs, the Board will meet to determine the amount of support that the Authority will provide.

The immediate responsiveness to disaster situations enables the individuals and regional communities to restore services, by providing essential housing to employees and owners of businesses and farming operations.

Applicants are eligible for assistance under this programme if their operations are in or near the area affected by the natural disaster, and the financial assistance must add to, repair or replace housing damaged or destroyed by the natural disaster.

No assistance was required as a result of a natural disaster. This program now sits within the HFAP as explained above.

SIGNIFICANT ISSUES AFFECTING THE AGENCY

Loans Management

The Authority's programs are funded by borrowings from the Western Australian Treasury Corporation or from internally generated sources.

Interest Rates

The standard interest rate moved once during the 2018-19 financial year. Note: the Authority currently operates a standard and grand-fathered rate.

<i>Rate start date</i>	<i>Repayment start date</i>	<i>Pre Oct 2009</i>		<i>Post Oct 2009</i>	
		<i>Old rate</i>	<i>New rate</i>	<i>Old Rate</i>	<i>New Rate</i>
01 Nov 2018	01 Dec 2018	4.38%	4.56%	5.16%	5.34%

Loan Fees

The Authority does not charge application or loan management fees, or for lump sum or extra payments on standard loans.

Loans Portfolio

The Authority's funded loan portfolio of 340 loans has an outstanding balance of \$48,954,161 at 30 June 2019.

Current and emerging issues

The Authority will continue to provide home loan options for farmers, pastoralists and rural employers who cannot access normal bank finance.

Economic and social trends

The Western Australian economy continues to grow with an expected 2% increase in Gross State Product (GSP) in 2018-19. Growth in GSP is expected to accelerate to 3.5% in 2019-20 and 3% from 2020-21¹.

The state government's planned funding for regional WA in the 2019-20 State Budget is to include more than \$5.6 billion in regional infrastructure over the next four years². With the increase in funding it is anticipated employment in regional areas will stabilise giving greater confidence in lending to applicants in regional WA.

Overall financial performance of Western Australian broad acre farms remained strong declining only slightly from previous year. In 2018-19 income for Western Australian sheep industry farms is projected to rise as a result of further increases in wool, lamb and sheep prices. This is projected to be the highest average income for the Western Australian sheep industry farms in 20 years, around 108 per cent higher than the 10 year average to 2017-18³. The median price per hectare in Western Australia increased by 3.8% in 2018, following a 6.5% decline in 2017⁴.

The majority of loans approved in 2018-19 were from the Wheatbelt region and to intergenerational farmers evidencing the stability of the applicants. The most common purpose for finance of the approved loans was to purchase established properties in nearby rural towns to house the applicants' children that work on the farm, interest is still prevalent in constructing new transportable homes and for renovations on farming properties.

The economic and social trends occurring throughout rural and remote Western Australia will continue to be monitored during 2019/20.

Changes in Written Law

There were no changes in any written law that affected the Authority during the financial year.

Likely future developments

The Authority will continue to monitor the housing needs of rural and remote Western Australians and respond accordingly.

References:

- 1 Western Australia State Budget 2019-20, The State of the WA Economy, <https://www.ourstatebudget.wa.gov.au/2019-20/economy.html>, 9th May 2019.
- 2 Western Australia State Budget 2019-20, Investing in Regional WA, <https://www.ourstatebudget.wa.gov.au/2019-20/regional.html>, 9th May 2019.
- 3 ABARES Farm financial performance – Western Australia, <http://www.agriculture.gov.au/abares/research-topics/aboutmyregion/farm-financial-performance-wa#performance-of-sheep-industry-farms>, 11th June 2019.
- 4 Rural Bank – Western Australia: Australian Farmland Values, <https://www.ruralbank.com.au/for-farmers/ag-answers/farm-land-values/western-australia>.



Auditor General

INDEPENDENT AUDITOR'S REPORT

To the Parliament of Western Australia

COUNTRY HOUSING AUTHORITY

Report on the Financial Statements

Opinion

I have audited the financial statements of the Country Housing Authority which comprise the Statement of Financial Position as at 30 June 2019, the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows for the year then ended, and Notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements are based on proper accounts and present fairly, in all material respects, the operating results and cash flows of the Country Housing Authority for the year ended 30 June 2019 and the financial position at the end of that period. They are in accordance with Australian Accounting Standards, the *Financial Management Act 2006* and the Treasurer's Instructions.

Basis for Opinion

I conducted my audit in accordance with the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Authority in accordance with the *Auditor General Act 2006* and the relevant ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial statements. I have also fulfilled my other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibility of the Board for the Financial Statements

The Board is responsible for keeping proper accounts, and the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards, the *Financial Management Act 2006* and the Treasurer's Instructions, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the agency's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Western Australian Government has made policy or funding decisions affecting the continued existence of the Authority.

Auditor's Responsibility for the Audit of the Financial Statements

As required by the *Auditor General Act 2006*, my responsibility is to express an opinion on the financial statements. The objectives of my audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.
- Conclude on the appropriateness of the Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the agency's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report on Controls

Opinion

I have undertaken a reasonable assurance engagement on the design and implementation of controls exercised by the Country Housing Authority. The controls exercised by the Authority are those policies and procedures established by the Board to ensure that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions (the overall control objectives).

My opinion has been formed on the basis of the matters outlined in this report.

In my opinion, in all material respects, the controls exercised by the Country Housing Authority are sufficiently adequate to provide reasonable assurance that the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities have been in accordance with legislative provisions during the year ended 30 June 2019.

The Board's Responsibilities

The Board is responsible for designing, implementing and maintaining controls to ensure that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities are in accordance with the *Financial Management Act 2006*, the Treasurer's Instructions and other relevant written law.

Auditor General's Responsibilities

As required by the *Auditor General Act 2006*, my responsibility as an assurance practitioner is to express an opinion on the suitability of the design of the controls to achieve the overall control objectives and the implementation of the controls as designed. I conducted my engagement in accordance with Standard on Assurance Engagements ASAE 3150 *Assurance Engagements on Controls* issued by the Australian Auditing and Assurance Standards Board. That standard requires that I comply with relevant ethical requirements and plan and perform my procedures to obtain reasonable assurance about whether, in all material respects, the controls are suitably designed to achieve the overall control objectives and the controls, necessary to achieve the overall control objectives, were implemented as designed.

An assurance engagement to report on the design and implementation of controls involves performing procedures to obtain evidence about the suitability of the design of controls to achieve the overall control objectives and the implementation of those controls. The procedures selected depend on my judgement, including the assessment of the risks that controls are not suitably designed or implemented as designed. My procedures included testing the implementation of those controls that I consider necessary to achieve the overall control objectives.

I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Limitations of Controls

Because of the inherent limitations of any internal control structure it is possible that, even if the controls are suitably designed and implemented as designed, once the controls are in operation, the overall control objectives may not be achieved so that fraud, error, or noncompliance with laws and regulations may occur and not be detected. Any projection of the outcome of the evaluation of the suitability of the design of controls to future periods is subject to the risk that the controls may become unsuitable because of changes in conditions.

Report on the Key Performance Indicators

Opinion

I have undertaken a reasonable assurance engagement on the key performance indicators of the Country Housing Authority for the year ended 30 June 2019. The key performance indicators are the key effectiveness indicators and the key efficiency indicators that provide performance information about achieving outcomes and delivering services.

In my opinion, in all material respects, the key performance indicators of the Country Housing Authority are relevant and appropriate to assist users to assess the Authority's performance and fairly represent indicated performance for the year ended 30 June 2019.

The Board's Responsibility for the Key Performance Indicators

The Board is responsible for the preparation and fair presentation of the key performance indicators in accordance with the *Financial Management Act 2006* and the Treasurer's Instructions and for such internal control as the Board determines necessary to enable the preparation of key performance indicators that are free from material misstatement, whether due to fraud or error.

In preparing the key performance indicators, the Board is responsible for identifying key performance indicators that are relevant and appropriate having regard to their purpose in accordance with Treasurer's Instruction 904 *Key Performance Indicators*.

Auditor General's Responsibility

As required by the *Auditor General Act 2006*, my responsibility as an assurance practitioner is to express an opinion on the key performance indicators. The objectives of my engagement are to obtain reasonable assurance about whether the key performance indicators are relevant and appropriate to assist users to assess the agency's performance and whether the key performance indicators are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion.

I conducted my engagement in accordance with Standard on Assurance Engagements ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* issued by the Australian Auditing and Assurance Standards Board. That standard requires that I comply with relevant ethical requirements relating to assurance engagements.

An assurance engagement involves performing procedures to obtain evidence about the amounts and disclosures in the key performance indicators. It also involves evaluating the relevance and appropriateness of the key performance indicators against the criteria and guidance in Treasurer's Instruction 904 for measuring the extent of outcome achievement and the efficiency of service delivery. The procedures selected depend on my judgement, including the assessment of the risks of material misstatement of the key performance indicators. In making these risk assessments I obtain an understanding of internal control relevant to the engagement in order to design procedures that are appropriate in the circumstances.

I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

My Independence and Quality Control Relating to the Reports on Controls and Key Performance Indicators

I have complied with the independence requirements of the *Auditor General Act 2006* and the relevant ethical requirements relating to assurance engagements. In accordance with ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*, the Office of the Auditor General maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Matters Relating to the Electronic Publication of the Audited Financial Statements and Key Performance Indicators

This auditor's report relates to the financial statements and key performance indicators of the Country Housing Authority for the year ended 30 June 2019 included on the Authority's website. The Authority's management is responsible for the integrity of the Authority's website. This audit does not provide assurance on the integrity of the Authority's website. The auditor's report refers only to the financial statements and key performance indicators described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements or key performance indicators. If users of the financial statements and key performance indicators are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial statements and key performance indicators to confirm the information contained in this website version of the financial statements and key performance indicators.



DON CUNNINGHAME
ASSISTANT AUDITOR GENERAL FINANCIAL AUDIT
Delegate of the Auditor General for Western Australia
Perth, Western Australia
28 August 2019

COUNTRY HOUSING AUTHORITY

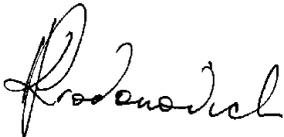
CERTIFICATION OF KEY PERFORMANCE INDICATORS FOR THE YEAR ENDED 30 JUNE 2019

We hereby certify that the key performance indicators are based on proper records, are relevant and appropriate for assisting users to assess the Country Housing Authority's performance, and fairly represent the performance of the Country Housing Authority for the financial year ended 30 June 2019.



Glyn Yates
Chairperson of the Accountable Authority

23 August 2019



Caterina Prodonovich
Board Member of the Accountable Authority

23 August 2019

PERFORMANCE INDICATORS

GOVERNMENT GOAL

To support the Government's "Sharing Prosperity" initiatives where possible. This includes providing access to finance for residential housing which supports:

1. A liveable environment
2. A strong economy; and
3. Regional prosperity

DESIRED OUTCOME

To provide access to residential housing in rural areas for eligible clients through mortgage lending.

The Authority achieves this desired outcome by providing housing loans directly and via facilitation and housing incentives services.

EFFECTIVENESS INDICATOR

The percentage of eligible applicants who are assisted and the total number of eligible applicants.

	2015/16	2016/17	2017/18	2018/19
Eligible applicants brought forward ¹	7	3	4	2
Eligible applications to be assessed brought forward ²	-	-	4	1
Plus eligible applications received	33	24	17	9
Less eligible applications to be assessed ²	-	4	1	-
Less eligible applications withdrawn	23	3	10	3
Net applications assessed	17	20	14	9
Number of clients assisted	14	16	12	8
Eligible applicants carried forward ¹	3	4	2	1
Actual % assisted	82	80	86	89
Target % assisted	87	87	87	87
¹ Application documentation has been successfully received and assessed, moving the applicant into pre-approval stage of the loan process.				
² Application documentation lodged, but still to be assessed.				

EFFICIENCY INDICATOR

Service 1: Housing Loan provision and facilitation

Efficiency indicator: The average cost in each year in administering housing loans.

	2015/16	2016/17	2017/18	2018/19
Average cost of loan administered	\$ 1,340	\$ 1,417	\$ 1,368	\$ 1,421

The 2018/19 average cost of loan administration is \$1,421 per annualised active loan, which is higher than prior year as the monthly fixed overhead costs are spread across a lower base of loans managed.

CERTIFICATION OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

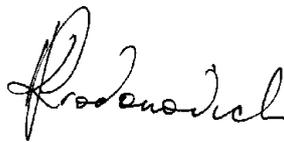
The accompanying financial statements of the Country Housing Authority have been prepared in compliance with the provisions of the *Financial Management Act 2006* from proper accounts and records to present fairly the financial transactions for the financial year ended 30 June 2019 and the financial position as at 30 June 2019.

At the date of signing we are not aware of any circumstances which would render any particulars included in the financial statements misleading or inaccurate.



Glyn Yates
Chairperson of the Accountable
Authority

23 August 2019



Caterina Prodonovich
Board Member of the Accountable
Authority

23 August 2019



Michael Verkuylen
Chief Finance Officer

23 August 2019

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019**

	Note	2019 \$'000	2018 \$'000
INCOME			
Revenue			
Interest revenue	4	<u>2,658</u>	<u>2,819</u>
Total Income		<u>2,658</u>	<u>2,819</u>
EXPENSES			
Finance costs	7	1,277	856
Board member fees	5	75	76
Administration expense	6	420	497
Credit loss on financial assets	8	778	65
Other expenses	9	<u>48</u>	<u>39</u>
Total Expenses		<u>2,598</u>	<u>1,533</u>
PROFIT FOR THE PERIOD		<u>60</u>	<u>1,286</u>
OTHER COMPREHENSIVE INCOME			
Items that will not be classified to profit or loss		-	-
Items that may be reclassified subsequently to profit or loss		<u>-</u>	<u>-</u>
Total other comprehensive income		<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>60</u>	<u>1,286</u>

The Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019**

	Note	2019 \$'000	2018 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents	12 (a)	1,981	861
Receivables	10 a) i)	749	661
Loans and advances	10 a) ii)	<u>5,166</u>	<u>7,015</u>
Total Current Assets		<u>7,896</u>	<u>8,537</u>
Non-Current Assets			
Loans and advances	10 a) ii)	<u>41,841</u>	<u>45,682</u>
Total Non-Current Assets		<u>41,841</u>	<u>45,682</u>
TOTAL ASSETS		<u>49,737</u>	<u>54,219</u>
LIABILITIES			
Current Liabilities			
Payables	10 b) i)	221	277
Amounts due to the Treasurer	10 b) ii)	50	48
Borrowings	10 b) iii)	<u>7,690</u>	<u>7,679</u>
Total Current Liabilities		<u>7,961</u>	<u>8,004</u>
Non-Current Liabilities			
Amounts due to the Treasurer	10 b) ii)	2,247	1,832
Borrowings	10 b) iii)	<u>17,605</u>	<u>21,246</u>
Total Non-Current Liabilities		<u>19,852</u>	<u>23,078</u>
TOTAL LIABILITIES		<u>27,813</u>	<u>31,082</u>
NET ASSETS		<u>21,924</u>	<u>23,137</u>
EQUITY			
Contributed equity	11	13,000	13,000
Retained earnings	11	<u>8,924</u>	<u>10,137</u>
TOTAL EQUITY		<u>21,924</u>	<u>23,137</u>

The Statement of Financial Position should be read in conjunction with the accompanying notes.

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019**

	Contributed Equity \$'000	Retained Earnings \$'000	Total Equity \$'000
Balance at 1 July 2017	13,000	9,896	22,896
Total comprehensive income for the period	-	1,286	1,286
Distribution to the Treasurer	-	(1,045)	(1,045)
Balance at 30 June 2018	<u>13,000</u>	<u>10,137</u>	<u>23,137</u>
Balance at 1 July 2018	13,000	10,137	23,137
Changes on initial application of AASB 9 (Note 17)	-	13	13
Restated opening balance at 1 July 2018	13,000	10,150	23,150
Total comprehensive income for the period	-	60	60
Distribution to the Treasurer	-	(1,286)	(1,286)
Balance at 30 June 2019	<u>13,000</u>	<u>8,924</u>	<u>21,924</u>

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019**

	Note	2019 \$'000	2018 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Interest received		2,570	2,726
Loan repayments received		6,891	8,043
Payments			
Finance costs		(849)	(917)
Supplies and services		(677)	(707)
New loans advanced		<u>(1,853)</u>	<u>(3,650)</u>
Net cash provided by operating activities		<u>6,082</u>	<u>5,495</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		3,050	900
Repayment of borrowings		<u>(6,726)</u>	<u>(7,719)</u>
Net cash used in financing activities		<u>(3,676)</u>	<u>(6,819)</u>
CASH FLOWS TO STATE GOVERNMENT			
Distribution to the Treasurer		<u>(1,286)</u>	<u>(1,045)</u>
Net cash used by State Government		<u>(1,286)</u>	<u>(1,045)</u>
Net increase/(decrease) in cash and cash equivalents		1,120	(2,369)
Cash and cash equivalents at the beginning of the period		<u>861</u>	<u>3,230</u>
CASH AND CASH EQUIVALENTS ASSETS AT THE END OF THE FINANCIAL YEAR	12 (a)	<u><u>1,981</u></u>	<u><u>861</u></u>

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

1. Basis of preparation

The Authority is a statutory authority under the Country Housing Act 1998 and is controlled by the State of Western Australia. The Authority is a not-for-profit entity, as profit is not its principal objective.

The Authority's primary objective is to lend to farmers, pastoralists, rural businesses and local government residing and operating in rural and remote Western Australia for affordable housing, where home loan finance options are otherwise limited.

Statement of compliance

These general purpose financial statements are prepared in accordance with:

- 1) The Financial Management Act 2006 (FMA)
- 2) The Treasurer's Instructions (TIs)
- 3) Australian Accounting Standards (AASs) – Reduced Disclosure Requirements
- 4) Where appropriate, those AAS paragraphs applicable for not-for-profit entities have been applied

The Financial Management Act and the Treasurer's instructions are legislative provisions governing the preparation of financial statements and take precedence over AASs. Several AASs are modified by TIs to vary application, disclosure format and wording. Where modification is required and has had a material or significant financial effect upon the reported results, details of that modification and the resulting financial effect are disclosed in the notes to the financial statements.

Basis of preparation

The financial statements have been prepared on the accrual basis of accounting using the historical cost convention except for liability amounts due to the Treasurer, which are at fair value.

The accounting policies adopted in the preparation of the financial statements have been consistently applied throughout all periods presented unless otherwise stated.

The financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000).

Judgements and estimates

The judgements that have been made in the process of applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included at Note 2 'Judgements made by management in applying accounting policies'.

The key assumptions made concerning the future, and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are included at Note 3 'Key sources of estimation uncertainty'.

2. Judgements Made By Management In Applying Accounting Policies

The preparation of financial statements requires management to make judgements about the application of accounting policies that have a significant effect on the amounts recognised in the financial statements. The Authority evaluates these judgements regularly.

The following judgements have been made in the process of applying accounting policies that have a significant effect on the amounts recognised in the financial statements:

The amortisation of loan origination fees is based on an estimate of the average life of the loans which is subject to assumptions of future events. The average life is determined by assessing the loan portfolio on a regular basis.

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Impairment of financial assets

Considerable judgement is exercised in determining the extent of the loan loss provision (impairment) for financial assets assessed for impairment both individually and collectively. The loan loss provision for financial assets are based on assumptions about risk of default and expected loss rates. The Authority uses judgement in making these assumptions about risk of default and expected loss rates. The Authority uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Authority's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. Changes in such judgements and analyses may lead to changes in the loan loss provisions over time. The key judgement areas are the assumptions used to measure expected credit losses, including the use of forward-looking and macro-economic information for individual and collective impairment assessment.

2. Judgements Made By Management In Applying Accounting Policies (continued)

Individually assessed loans (Stage 3): Individual provisions are calculated using the discounted expected future cash flow method. To determine expected future cash flows, one or more scenarios are used. Each scenario is analysed based on the probability of occurrence and including forward looking information. In determining the scenarios, all relevant factors impacting the future cash flows are taken into account. These include expected developments in credit quality, business and economic forecasts, and estimates of if/when recoveries will occur, taking into account the structure of the financial asset and the Authority's restructuring/recovery strategy. The macro-economic forecast is captured, as the expected future macro-economic situation serves as a basis for the cash flows in the scenarios. For the individual assessment, with granular (company or deal-specific) scenarios, specific factors can have a larger impact on the future cash flows than macro-economic factors (i.e for the country as a whole).

Collectively assessed loans (Stages 1 to 2): For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Expected future cash flows in a portfolio of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets in the portfolio and historical loss experience for assets with credit risk characteristics similar to those in the portfolio. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The outcome of the models reflects forward looking and macro-economic information.

The use of different assumptions could produce significantly different estimates of ECL. As the inclusion of forward-looking macro-economic scenarios requires judgement, the Authority has established an annual process whereby forward-looking macro-economic scenarios are developed for ECL calculation purposes. Forecasts of these economic variables (the "base economic scenario") are provided by the Department of Treasury, providing key impairment drivers such as GDP, unemployment and house prices.

The following criteria and definitions are applied for impairment:

- **The criteria for identifying a significant increase in credit risk**

When determining whether the credit risk on a financial asset has increased significantly, the Authority considers reasonable and supportable information available to compare the risk of default occurring at the quarterly reporting date with the risk of a default occurring at initial recognition of the financial asset.

A financial asset moves from Stage 1 to Stage 2 when there is a significant increase in credit risk since initial recognition. A framework was established that incorporates quantitative and qualitative information to identify this on an asset level applying a relative assessment. Each financial asset is assessed at the reporting date on the triggers for significant increase in credit risk. Keystart assesses significant increase in credit risk using:

2. Judgements Made By Management In Applying Accounting Policies (continued)

- hardship status
- account conduct where the borrower does not meet 85% of minimum monthly commitment in consecutive months, and
- 35 days or more past due as back stop for Stage 1 to Stage 2 transfers

- **The definition of default**

Judgement is exercised in management's evaluation of whether there is objective evidence that an impairment loss on an asset has been incurred. Significant judgement is required in assessing evidence of credit-impairment and estimation of the amount and timing of future cash flows when determining expected credit losses.

The Authority defines a financial instrument as in default, which is aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments, and/or the Authority considers the borrower unlikely to make its payments in full without recourse action on the Authority's part, such as taking formal possession of any collateral held.

Qualitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is deceased
- The borrower is insolvent
- It is becoming probable that the borrower will enter bankruptcy

The criteria above have been applied to all financial instruments held by the Authority and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) throughout the Authority's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of three months. This period of three months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

3. Key Sources Of Estimation Uncertainty

The Authority makes key estimates and assumptions concerning the future. These estimates and assumptions are based on historical experience and various other factors that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

Impairment of loans and advances

The Authority determines whether loans and advances are impaired on an ongoing basis. This requires an estimation of the value of the future cash flows. The policy for the assessment of impairment of loans and advances is disclosed in note 10.

4. Interest Revenue

	2019 \$'000	2018 \$'000
Interest on loans and advances	2,616	2,778
Interest on bank account	42	41
	<u>2,658</u>	<u>2,819</u>

Revenue is recognised as the interest accrues using the effective interest rate method.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets (except for financial assets that have been subsequently become credit-impaired (or 'Stage 3')).

5. Board Member Fees and Employee Benefits Expenses

Board member fees	70	70
Superannuation - defined contribution plans	5	6
	<u>75</u>	<u>76</u>

6. Administration Expense

Administration fee *	420	496
Bank fees	-	1
	<u>420</u>	<u>497</u>

* The Authority has a contractual agreement whereby Keystart Loans Ltd manages the Authority for a fee of \$1,000 per loan managed and \$5,000 per loan approved for the year.

7. Finance Costs

	2019 \$'000	2018 \$'000
Interest expense	812	894
Fair value adjustment on amounts due to the Treasurer	465	(38)
	<u>1,277</u>	<u>856</u>

Interest expense is calculated by applying the effective interest rate to the gross carrying amount of financial liabilities.

8. Credit Loss Expense on Financial Assets

Credit loss expense	<u>778</u>	<u>65</u>
	<u>778</u>	<u>65</u>

9. Other Expenses

External audit fees	39	39
Other	9	-
	<u>48</u>	<u>39</u>

10. Financial Instruments

The Authority has two categories of financial instruments:

(i) Loans and Receivables

(ii) Non-Trading Financial Liabilities (borrowings, payables and amounts due to the Treasurer)

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Authority commits to purchase or sell the asset.

At initial recognition, the Authority measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

10. Financial Instruments (continued)

The Authority assesses on a forward looking basis the ECL associated with its loans and receivables carried at amortised cost. The Authority recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

a) Financial assets

Classification and subsequent measurement

From 1 July 2018, the Authority has applied AASB 9 and classifies its cash and bank balances, receivables and loans and advances at amortised cost.

Subsequent measurement of financial assets depend on:

- the Authority's business model for managing the asset; and
- the cash flow characteristics of the asset.

Business model: the business model reflects how the Authority manages the financial assets in order to generate cash flows. That is, whether the Authority's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Authority in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the Authority's business model for the mortgage loan book is to hold to collect contractual cash flows.

10. Financial Instruments (continued)

Cash flow characteristics: Where the business model is to hold financial assets to collect contractual cash flows or to collect contractual cash flows and sell, the Authority assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Authority considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

i) Receivables

	2019 \$'000	2018 \$'000
Interest receivable	749	661
	<u>749</u>	<u>661</u>

Receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts (i.e. impairment). The collectability of receivables is reviewed on an ongoing basis and any receivables identified as uncollectible are written-off. The allowance for uncollectible amounts (doubtful debts) is raised when there is objective evidence that the Authority will not be able to collect its debts. The carrying amount is equivalent to fair value as it is due for settlement within 30 days.

ii) Loans and advances

Current

Loans	7,113	8,268
Provision for impairment of loans	(1,947)	(1,253)
	<u>5,166</u>	<u>7,015</u>

Non-current

Loans	41,841	45,682
	<u>47,007</u>	<u>52,697</u>

10. Financial Instruments (continued)

At initial recognition loans and advances are measured at its fair value. Transaction costs are included in the measurement of all loans and advances. Subsequent measurement is at amortised cost using the effective interest rate method.

The Authority has formal processes in place to assess the credit worthiness of its clients including credit checks with credit reporting agencies. Fully performing receivables are considered to be of good quality when taking into consideration the security being held against the outstanding amount.

Reconciliation of changes in the allowance for impairment of loans and advances:

	2019	2018
	\$'000	\$'000
Balance at start of year	1,253	1,188
AASB 9 Adjustment to opening balance	(13)	-
Credit loss expense	778	65
Amounts written off during the year	(71)	-
Balance at end of year	<u>1,947</u>	<u>1,253</u>

The collective provision for impairment of loans and advances includes all loans that are not individually impaired. Loans are assessed individually when they are in arrears more than 90 days, assigned as financial hardship more than 90 days or repossessed loans.

Loans that are past due, but not individually impaired are not considered to be at significant risk as collateral security is held under mortgage to secure these advances.

Financial Hardship Scheme

At the end of the current financial period, there were two restructured loans on the Financial Hardship Scheme with a total loan amount of \$711,000 (2018: nil). This scheme is offered to clients who require assistance because of changes in their financial situation. In most cases, assistance is granted for short terms of up to six months.

Repossessed Loans

Mortgagee sales are considered the last resort in relation to continually defaulting borrowers. The execution of the mortgagee sales must comply with the *National Consumer Credit Protection Act 2009* and National Credit Code, where appropriate.

Repossessed collateral is sold at the best possible market price, with any surpluses being returned to the borrowers concerned. Any shortfalls are written-off against the provision.

10. Financial Instruments (continued)

	2019 \$'000	2018 \$'000
<u>Outstanding balance on loans for which collateral will be repossessed</u>		
Balance	1,944	2,034
Provision for impairment	<u>(1,800)</u>	<u>(1,194)</u>
	144	840
Fair value of collateral obtained in terms of exercising the rights under the mortgages	1,180	1,040
Interest forgone on repossessed loans	100	106

Collateral held

Collateral is in the form of registered first or second mortgages over residential properties in Western Australia purchased with the proceeds of loans from the Authority. The parties granting the mortgage must be the same as the borrowers of the Authority.

The terms and conditions associated with the use of collateral are such that should a borrower breach the terms and conditions of their mortgage, the Authority has the facility to recover all or part of the outstanding exposure by exercising its rights under the mortgage, including the power of sale and exercising any rights available under law.

Write-off

The Authority writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Authority's recovery method is taking possession of collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Authority may write-off financial assets that are still subject to enforcement activity. The Authority still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

b) Financial liabilities

Classification and subsequent measurement

Financial liabilities are classified and subsequently measured at amortised with the exception of Amounts due to the Treasurer, which are measured at FVTPL.

10. Financial Instruments (continued)

i) Payables

	2019 \$'000	2018 \$'000
Administration expenses	182	238
Audit fees	39	39
	<u>221</u>	<u>277</u>

Payables are recognised as the amounts payable when the Authority becomes obliged to make future payments as a result of a purchase of assets or services. The carrying amount is equivalent to fair value, as they are generally settled within 30 days.

ii) Amounts due to The Treasurer

Current

Amounts due to the Treasurer	<u>50</u>	<u>48</u>
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Non-current

Amounts due to the Treasurer	<u>2,247</u>	<u>1,832</u>
	<u>2,297</u>	<u>1,880</u>

The amount due to the Department of Treasury ('Treasurer') is in respect of a former loan to the Industrial and Commercial Employees Housing Authority (ICEHA). ICEHA was amalgamated with the Rural Housing Authority to establish the Country Housing Authority on 1 July 1998. The loan is interest free and is repayable in monthly instalments in accordance with the agreement. The loan will be fully repaid in 2048.

The amount was initially recognised at fair value of the net proceeds received. Subsequent measurement is at fair value through the profit and loss.

Fair Value

The fair value of the financial liabilities traded in active markets is based on quoted market prices at the statement of financial position date. If the market for a financial liability is not active, the Authority establishes fair value by using valuation techniques, such as discounted cash flow analysis.

10. Financial Instruments (continued)

iii) Borrowings

	2019 \$'000	2018 \$'000
Current		
WATC fixed interest loans	90	79
WATC variable interest loans	<u>7,600</u>	<u>7,600</u>
	7,690	7,679
Non-current		
WATC fixed interest loans	255	346
WATC variable interest loans	<u>17,350</u>	<u>20,900</u>
	17,605	21,246
Total	<u><u>25,295</u></u>	<u><u>28,925</u></u>

All interest bearing borrowings are initially recognised at the fair value of the net proceeds received. Subsequent measurement is at amortised cost using the effective interest rate method.

At 30 June 2019 the Authority has access to borrowings from the Western Australian Treasury Corporation ('WATC') to a limit of \$25,375,000 (2018: \$32,500,000). At 30 June 2019 the unused portion of this facility amounted to \$80,000 (2018: \$3,575,000).

No assets of the Authority have been pledged as security for the borrowings.

11. Equity

Contributed equity

Balance at the start of the year	<u>13,000</u>	<u>13,000</u>
Balance at the end of the year	<u><u>13,000</u></u>	<u><u>13,000</u></u>

The Authority was established on 1 July 1998 by the amalgamation of the former Rural Housing Authority and the Industrial and Commercial Employees Housing Authority. The fair value of assets and liabilities transferred has been recognised as an injection of equity totalling \$13,000,000 by the State Government.

Retained earnings

Balance at the start of the year	10,137	9,896
Changes on initial application of AASB 9 (Note 2 (d))	13	-
Distribution to the Treasurer	(1,286)	(1,045)
Result for the period	<u>60</u>	<u>1,286</u>
Balance at the end of the year	<u><u>8,924</u></u>	<u><u>10,137</u></u>

12. Notes to the Statement of Cash Flows

(a) Cash

Cash at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

	2019	2018
	\$'000	\$'000
Cash and cash equivalents	<u>1,981</u>	<u>861</u>
	<u>1,981</u>	<u>861</u>

For the purpose of the Statement of Cash Flows, cash and cash equivalents (and restricted cash and cash equivalents) comprise cash on hand and short-term deposits with original maturities of three months or less that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(b) Non-cash financing and investing activities

During the year there were no assets/liabilities transferred from other government agencies not reflected in the Statement of Cash Flows.

13. Commitments

Loans approved but not yet fully funded	<u>123</u>	<u>1,030</u>
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14. Distribution of surplus

Distributions of surplus to the Treasurer are made in accordance with the Country Housing Act 1998. They are disclosed as cash flows to State Government in the Statement of Cash Flows.

15. Contingent Liabilities and Contingent Assets

The Authority has no contingent liabilities or assets.

16. Events Occurring after the Balance Sheet Date

No event after the reporting date has occurred which would cause the financial statements to be misleading or affect the Authority as a going concern.

17. Initial application of Australian Accounting Standards

As of 1 July 2018 the Authority applied the classification, measurement and impairment requirements of AASB 9 *Financial Instruments* retrospectively. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings of the current period. As permitted by the transitional provisions of AASB 9, the Authority elected not to restate comparative figures.

Impact of adoption

Transition

Under AASB 9 financial assets are subsequently measured at amortised cost, fair value through other comprehensive income (FVTOCI) or fair value through profit or loss (FVTPL). The classification is based on two criteria:

- The determination of the business model within which a financial asset is held
- The analysis of their cash flow characteristics

The assessment of the Authority's business model was made at the date of application, 1 July 2018. The assessment of whether contractual cash flows on financial assets are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

Changes in accounting policies resulting from the adoption of AASB 9 have been applied retrospectively, except as detailed below:

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of AASB 9 are recognised in retained earnings as of 1 July 2018. Accordingly, the information presented for 2018 does not reflect the requirements of AASB 9 and therefore is not comparable to the information presented for 2019 under AASB 9.

The classification and measurement requirements of AASB 9 did not have a significant impact to the Authority. The effect of adopting AASB 9 was as follows:

17. Initial application of Australian Accounting Standards (continued)

	Note	AASB 139 carrying amount 30/06/2018 \$'000	Re-classifications \$'000	Re-measurements \$'000	AASB 9 carrying amount 01/07/2018 \$'000
Financial Assets					
<i>Amortised cost</i>					
Loans & advances to customers					
Opening balance under AASB 139		52,697			
Re-measurement: ECL allowance	17 a) i)			13	
Closing Balance under AASB 9					52,710

a) Classification and measurement

- **Re-classification**
The Authority did not reclassify any financial assets or liabilities.
- **Loans and advances to customers**
Loans and advances continue to be measured at amortised cost with a new impairment allowance under AASB 9 being applied. Refer to item i) below.

i) Impairment

The adoption of AASB 9 has fundamentally changed the Authority's accounting for impairment losses for financial assets by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach. AASB 9 requires the Authority to recognise an allowance for ECLs for all financial assets not held at FVTPL.

Upon adoption of AASB 9 the Authority recognised a decrease in impairment on loans and advances of \$13,000, which resulted in an increase in Retained earnings as at 1 July 2018.

The following table reconciles the prior period's closing impairment allowance measured in accordance with AASB 139 incurred loss model to the new impairment allowance measured in accordance with the AASB 9 expected loss model at 1 July 2018:

17. Initial application of Australian Accounting Standards (continued)

	Loan loss allowance under AASB 139 \$'000	Re-measurement \$'000	Loan loss allowance under AASB 9 \$'000
Loans & advances to customers	1,253	(13)	1,240

18. Related Party Information

(a) All Ministers and their close family members, and their controlled or jointly controlled entities.

(b) The board members of the Authority during the year ended 30 June 2019 were:

	APPOINTED	CEASED
G Yates	August 2015	
C Prodonovich	August 2015	
D Lynch	August 2011	
S Cameron	October 2014	

Significant transactions with government related entities

The Housing Authority acts as settlement agents for Country Housing Authority. Fees are incurred by the borrower and are paid at arm's length and provided at commercial rates. There is no cost to the Authority.

The Authority transacts with a number of Western Australian State Government authorities, agencies and government trading enterprises. All transactions with related parties are made on normal terms and conditions and will be settled in cash. Unless stated below all outstanding balances are unsecured.

The Authority has an interest free loan payable to the Department of Treasury. The loan is to be fully repaid in 2048. Amounts paid during the year for the loan amounted to \$47,000 (2018: \$45,000). The undiscounted balance outstanding on the loan is \$2,865,000 (2018: \$2,912,000).

To fund operations, the Authority borrows directly from the West Australian Treasury Corporation (WATC). During the year, the Authority had the following transactions with WATC:

- Proceeds of Borrowings	\$ 3,050,000	(2018: \$ 900,000)
- Repayment of Borrowings	\$ 6,726,000	(2018: \$7,676,000)
- Loan Guarantee fee charged	\$ 190,000	(2018: \$ 223,000)
- Interest charged	\$ 622,000	(2018: \$ 671,000)

18. Related Party Information (continued)

The Authority has \$25,295,000 in borrowings payable to WATC at 30 June 2019 (2018: \$28,925,000). The Interest and Loan Guarantee fee payable to WATC at 30 June 2019 is \$96,000 and \$45,000 (2018: \$127,000 and \$51,000).

In 2010, the Authority entered into a contractual agreement with Keystart Loan Ltd, where Keystart manages the Authority for a fee. Keystart is a related party of the Authority by nature of common directors on the board of both entities and reporting to the Minister of Housing. The management fee charged by Keystart during the year was \$420,000 (2018: \$496,000), with \$41,000 of this outstanding at the end of the financial year (2018: \$53,000).

The Office of the Auditor General audits the financial statements of the Authority. The value of the services provided by the OAG during the year was \$39,000. This balance is payable at 30 June 2019 (2018: \$39,000).

Significant transactions with other related parties

The Authority had no material related party transactions with Ministers/senior officers or their close family members or their controlled (or jointly controlled) entities for disclosure.

19. Compensation of Key Management Personnel

The Authority has determined that key management personnel include Ministers and board members of the Authority. However, the Authority is not obligated to compensate Ministers and therefore disclosures in relation to Ministers' compensation may be found in the *Annual Report on State Finances*.

(a) Remuneration of members of the Accountable Authority

The numbers of members of the Accountable Authority, whose total of fees, salaries, superannuation and other benefits for the financial year, fall within the following bands are:

	2019	2018
	No's	No's
\$ 0 - \$10,000	1	1
\$10,001 - \$20,000	1	1
\$20,001 - \$30,000	1	1
\$30,001 - \$40,000	-	-
\$40,001 - \$50,000	1	1
	\$'000	\$'000
Short term employee benefits	70	70
Annual leave and long service leave accruals	-	-
Post employment benefits	5	6
The total remuneration of members of the Authority	<u>75</u>	<u>76</u>

19. Compensation of Key Management Personnel (continued)

Post employment benefits represent the superannuation expense incurred by the Authority in respect of members of the Accountable Authority. Some members are appointed to the board as part of their public sector duties and are paid by other government agencies.

(b) Remuneration of senior officers

During the financial year, there were no employees as management is provided by Keystart Scheme Management Pty Ltd on a cost recovery basis in accordance with contractual arrangements.

20. Remuneration of the Auditor

Remuneration payable to the Auditor General for the financial year is as follows:

	2019 \$'000	2018 \$'000
Auditing the accounts, financial statements and performance indicators	<u>39</u>	<u>39</u>

21. Supplementary Financial Information

(a) Write offs

During the year no public property was written off by the Minister.

(b) Losses through theft, default and other causes

During the year there was one loan written off in an amount of \$71,000 (refer Note 10).

22. Explanatory Statement

This statement provides the details of any major variations between estimates and actual results for 2019 and between the actual results for 2018 and 2019. Major variations for the Statement of Comprehensive Income and Statement of Cash flows are considered to be those greater than 5% and greater than a dollar aggregate of 2% of Total Cost of Services. Major variances for the Statement of Financial Position are considered to be those greater than 5% and greater than a dollar aggregate of 2% of Total Assets (variances relating to cash assets, receivables, payables, contributed equity and accumulated surplus are excluded from the definition).

22. Explanatory Statement (continued)

(i) **Major variances between actual and estimate results for the current financial year (\$'000)**

STATEMENT OF COMPREHENSIVE INCOME	2019			
	Actual \$'000	Estimate \$'000	Variance \$'000	%
Income				
Interest revenue	2,658	2,947	(289)	(10%)
Expenses				
Finance costs	1,277	905	372	41%
Administration expense	420	558	(138)	(25%)
Credit loss on financial assets	778	61	717	1,175%

Explanation of variations

Interest revenue

Interest revenue was lower in the current year due to a lower average balance in the mortgage portfolio than forecasted.

Finance costs

A decrease in the 10 year Bond rate used to discount the Amounts due to the Treasurer resulted in a fair value adjustment of \$465,000. This has resulted in higher Finance costs than forecast.

Administration expense

The Authority is charged a fee on a unit cost recovery basis. The loan approval volumes were lower during the year, which resulted in lower origination costs.

Credit loss on financial assets

The provision expense for impairment of loans and advances was higher than forecast as the individually impaired receivables increased during the year reflecting an increase in loans in default and decreases in the value of secured properties compared to valuation at origination.

22. Explanatory Statement (continued)

STATEMENT OF FINANCIAL POSITION

	2019			
	Actual \$'000	Estimate \$'000	Variance \$'000	%
Current Assets				
Loans and advances	5,166	8,622	(3,456)	(40%)
Non-current Assets				
Loans and advances	41,841	46,331	(4,490)	(10%)
Non-current Liabilities				
Borrowings	17,605	24,381	(6,776)	(28%)

Explanation of variations

Loans and advances

Low approval volumes in 2019 resulted in a lower loan book portfolio as repayments and discharges exceeded new loans funded.

Borrowings

A lower than forecast loan portfolio has led to a lower borrowing requirement in 2019 as surplus cash was used to repay debt.

STATEMENT OF CASH FLOWS	2019			
	Actual \$'000	Estimate \$'000	Variance \$'000	%
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts				
Interest received	2,570	2,951	(381)	(13%)
Payments				
Finance costs	849	908	(59)	(6%)
Supplies and services	677	717	(40)	(6%)
New loans advanced	1,853	5,927	(4,074)	(69%)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from borrowings	3,050	6,750	(3,700)	(55%)
Repayment of borrowings	6,726	7,603	(877)	(12%)
CASH FLOWS TO STATE GOVERNMENT				
Distribution to the Treasurer	1,286	1,207	79	7%

22. Explanatory Statement (continued)

Explanation of variations

Interest received

A lower average balance in the mortgage portfolio has resulted in lower interest received during the year than forecast.

Finance costs

As the level of borrowings were lower than forecast this has resulted in lower finance costs in the current year.

Supplies and services

The Authority is charged a fee on a unit cost recovery basis for Administration expenses. The loan volumes were lower during the year which resulted in lower origination costs.

New loans advanced

Lower levels of new lending due to current economic conditions and limited demand from customers have resulted in lower funding during 2019 than forecast.

Net borrowings

The lower borrowing requirement in 2019 led to higher levels of debt being retired.

Distribution to the Treasurer

The distribution declared each financial year relates to the total comprehensive income from the prior year. At the time of budget submission, the income for 2017/18 was estimated at a lower level than the actuals.

(ii) Major variances between current year actual and prior year actual (\$'000)

STATEMENT OF COMPREHENSIVE INCOME	2019	2018	Variance	
	Actual \$'000	Actual \$'000	\$'000	%
Income				
Interest revenue	2,658	2,819	(161)	(6%)
Expenses				
Administration costs	420	497	(77)	(15%)
Finance costs	1,277	856	421	49%
Credit loss on financial assets	778	65	713	1,097%

22. Explanatory Statement (continued)

Explanation of variations

Interest revenue

Interest charged to borrowers' accounts was lower in 2019 as a result of a lower average balance in the mortgage portfolio.

Administration costs

The Authority is charged a fee on a unit cost recovery basis for Administration expenses. The loan volumes were lower during the year which resulted in lower origination costs.

Finance costs

Finance costs were higher in the current year as a result of the lower 10 year Bond rate used to discount the Amounts due to the Treasurer. This resulted in a fair value adjustment of \$465,000 and higher Finance costs than the prior year.

Credit loss on financial assets

The provision expense for impairment of loans and advances was higher in the current year as the individually impaired receivables increased, reflecting an increase in loans and default.

STATEMENT OF FINANCIAL POSITION

	2019 Actual \$'000	2018 Actual \$'000	Variance	
			\$'000	%
Current Assets				
Loans and advances	5,166	7,015	(1,849)	(26%)
Non-Current Assets				
Loans and advances	41,841	45,682	(3,841)	(8%)
Non-current Liabilities				
Borrowings	17,605	21,246	(3,641)	(17%)

Explanation of variations

Loans and advances

Lower approval levels in 2019 resulted in a lower loan book portfolio.

Borrowings

The lower loan portfolio results in a lower borrowing requirement in 2019.

22. Explanatory Statement (continued)

STATEMENT OF CASH FLOWS	2019	2018	Variance	
	Actual \$'000	Actual \$'000	\$'000	%
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts				
Interest received	2,570	2,726	(156)	(6%)
Loan repayments received	6,891	8,043	(1,152)	(14%)
Payments				
Finance costs	849	917	(68)	(7%)
New loans advanced	1,853	3,650	(1,797)	(49%)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from borrowings	3,050	900	2,150	239%
Repayment of borrowings	6,726	7,719	(993)	(13%)
CASH FLOWS TO STATE GOVERNMENT				
Distribution to the Treasurer	1,286	1,045	241	23%

Explanation of variations

Interest received

Interest received decreased as a result of a lower average balance in the mortgage portfolio.

Loan repayments received

Lower discharge volumes and the lower average balance in the mortgage portfolio resulted in lower repayments received.

Finance costs

Finance costs were lower in the current year due to lower levels of borrowings.

New loans advanced

Low loan approval volumes during 2019 resulted in lower funding levels.

Net borrowings

Due to a lower borrowing requirement in 2019 higher levels of debt were retired.

Distribution to the Treasurer

The distribution declared each financial year relates to the total comprehensive income from the prior year.

The distribution for 2017/18 is based on total comprehensive income of \$1,045,000 for 2016/17 and 2018/19 is based on total comprehensive income of \$1,286,000 for 2017/18. As the income for 2016/17 was lower than 2017/18, mainly due to higher doubtful debt provisions, the resulting distribution in 2018/19 was higher than in 2017/18.

ANNUAL ESTIMATES

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020

	2019/20 \$'000
INCOME	
Revenue	
Interest revenue	2,543
Total Income	<u>2,543</u>
EXPENSES	
Finance costs	748
Administration expense	461
Other expenses	181
Bad debts written off	73
Total expenses	<u>1,463</u>
PROFIT	<u>1,080</u>

**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020**

	2019/20
	\$'000
ASSETS	
Current Assets	
Cash and cash equivalents	483
Receivables	671
Loans and advances	6,376
Total Current Assets	<u>7,530</u>
Non-Current Assets	
Loans and advances	38,709
Total Non-Current Assets	<u>38,709</u>
TOTAL ASSETS	<u>46,239</u>
LIABILITIES	
Current Liabilities	
Payables	86
Amounts due to the Treasurer	38
Borrowings	5,763
Total Current Liabilities	<u>5,887</u>
Non-Current Liabilities	
Amounts due to the Treasurer	1,826
Borrowings	15,580
Total Non-Current Liabilities	<u>17,406</u>
TOTAL LIABILITIES	<u>23,293</u>
NET ASSETS	<u>22,946</u>
EQUITY	
Contributed equity	13,000
Retained earnings	9,946
TOTAL EQUITY	<u>22,946</u>

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020**

2019/20

\$'000

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts

Interest received 2,543

Loan repayments received 5,440

Payments

Finance costs 752

Supplies and services 676

New loans advanced 2,000

Net cash provided by operating activities 3,428

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from borrowings 3,568

Repayment of borrowings 7,600

Net cash provided by financing activities 4,032

CASH FLOWS TO STATE GOVERNMENT

Distribution to the Treasurer 523

Net cash provided by State Government 523

Net increase/(decrease) in cash and cash equivalents -

Cash and cash equivalents at the beginning of the period 483

**CASH AND CASH EQUIVALENTS ASSETS AT THE END OF
THE FINANCIAL YEAR** 483

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Country Housing and Keystart website can be accessed via:

**www.keystart.com.au/loans-and-tools/rural-home-loan or
www.keystart.com.au**

Visit the Department of Communities website:

www.communities.wa.gov.au

keystart.com.au