

Country Housing Authority —

Mr J.M. Francis, Chairman.

Mr T.R. Buswell, Minister for Housing.

Mr J.A. Coles, Chief Executive Officer, Keystart.

Mr G.J. Searle, Director General, Department of Housing.

The CHAIRMAN: This estimates committee will be reported by Hansard staff. The daily proof *Hansard* will be published at 9.00 am tomorrow.

Members may raise questions about matters relating to the operations and budget of the off-budget authority. Off-budget authority officers are recognised as ministerial advisers. It is the intention of the Chair to ensure that as many questions as possible are asked and answered and that both questions and answers are short and to the point. The minister may agree to provide supplementary information to the committee, rather than asking that the question be put on notice for the next sitting week. I ask the minister to clearly indicate what supplementary information he agrees to provide and I will then allocate a reference number. If supplementary information is to be provided, I seek the minister's cooperation in ensuring that it is delivered to the committee clerk by Friday, 8 June 2012. I caution members that if a minister asks that a matter be put on notice, it is up to the member to lodge the question on notice with the Clerk's office.

I now ask the minister to introduce his advisers to the committee.

[Witnesses introduced.]

The CHAIRMAN: Member for Willagee.

Mr P.C. TINLEY: I note for the time allocation we have between 9.00 and 10.00 am for the Country Housing Authority and Keystart; we will see whether we can carry it. The Country Housing Authority, as we know, is an off-budget item. Has there been any expenditure of public money in the Country Housing Authority?

Mr J.A. Coles: Keystart took over the Country Housing Authority. The debt is raised through the Western Australian Treasury Corporation, but the expenditure for its operation is a Keystart expense. There is state debt, but the expense of running it is an expense through Keystart, which is a private company in which the government owns the shares.

Mr T.R. BUSWELL: To clarify, Country Housing used to trade as a separate entity, but we decided a couple of years ago to absorb the operational aspects of the Country Housing Authority into Keystart. The Country Housing Authority still provides some products, but they are not terribly large products. It generally advances 70 or 80 loans per annum, and those loans are targeted to farmers or small businesses in regional areas. It is a fairly tight area. There was no sense in having two entities when Keystart could cover it. The technical answer to the member's question is that public moneys are lent—if we call it public moneys, because it is Keystart debt—under the umbrella of the Country Housing Authority, but the costs associated with the administration of those loans, be they application fees or costs for the ongoing maintenance of the loans, are borne by the Country Housing Authority.

Mr W.J. JOHNSTON: Just to clarify—I have previously been at the estimates committee for Keystart but I have not been at the estimates committee for the Country Housing Authority—really they are now one organisation.

Mr T.R. BUSWELL: Yes. By way of clarification, a small payment is made to the Country Housing Authority Board as well.

Mr W.J. JOHNSTON: What is the total loan book for the organisation?

Mr T.R. BUSWELL: For the Country Housing Authority?

Mr W.J. JOHNSTON: However the minister wants to answer that question.

Mr T.R. BUSWELL: The total loan book for the Country Housing Authority as at April was \$63.85 million. By way of comparison, the total loan book for Keystart as at April was \$3.49 billion.

Mr W.J. JOHNSTON: I have asked this question previously. The authority has to maintain its capital adequacy like it is a bank. It has 10 per cent or 11 per cent of capital and, as I understand it, that is all being accumulated by the operations of the organisation without there being a cash injection. Is that correct?

Mr T.R. BUSWELL: Yes. I am not sure what form it is held in. It is probably invested in a public account.

Mr J.A. Coles: Yes. Short-term investments of 90 days, but in Australian banks.

Mr W.J. JOHNSTON: I am sorry, what was the last part?

Mr J.A. Coles: In Australian banks, but invested in 90-day bank bills and things like that.

Mr T.R. BUSWELL: That is a prudential reserve, or whatever the member wants to call it.

Mr W.J. JOHNSTON: Is that 11 per cent or 10 per cent?

Mr J.A. Coles: We are required by the Australian Securities and Investments Commission to have eight per cent. We have 10 per cent at the moment.

Mr P.C. TINLEY: Why is it not running at eight per cent?

Mr J.A. Coles: We are not running at eight per cent because at two per cent lending when a bank lends at 10 per cent, we always run above the eight per cent. That is normally what a bank would do lending at 10 per cent.

Mr P.C. TINLEY: I see. It is just convention.

Mr J.A. Coles: Yes.

Mr J.C. KOBELKE: Following up on that, clearly there is a capital adequacy issue. But what I would like to get to is something of the average interest rates. What I am looking for is a comparison. At this stage I am not asking a question about the interest rate charged to customers, if I can put it that way—the people who have got homes. What I am looking at was just indicated a moment ago by Mr Coles. A percentage is required to be invested and there is an interest rate. That interest rate probably jumps around a bit; therefore, I am wondering whether there is a weighted average for that. I would like to know how that compares with the interest rate that the authority is paying—again, if possible, a weighted average interest rate—on the borrowings. A small amount has been invested on which interest is earned and there is a much larger amount, which is the borrowings on which interest has to be paid. I am looking at the spread between what is earned on investment and what has to be paid on an actual loan or borrowings.

Mr J.A. Coles: The spread is about 1.8 per cent. About one per cent of that applies to capital adequacy and the other applies to the provision of safety nets or a social dividend back to the Department of Housing for rental housing.

Mr J.C. KOBELKE: I want to clarify that. I am trying to leave out issues of payment to the consolidated fund et cetera. I am referring to the dealings of the Country Housing Authority and Keystart housing with their banking institutions or major lenders.

Mr T.R. BUSWELL: By way of clarification, what the member is after is what we are getting for the money we have in the bank—let us call it our prudential reserve—and what we are paying effectively through Treasury Corporation for the money we are borrowing to pass through to lenders. What would our cost of funds be?

Mr J.A. Coles: The cost of funds through Treasury is about 4.8 per cent and through the investment we are getting about 5.2 per cent or 5.3 per cent.

Mr T.R. BUSWELL: Geez; we could borrow money, invest it and make money!

Mr J.C. KOBELKE: How is it that the authority is getting a better return on what is being invested than the rate that it has to pay for the borrowings?

[9.10 am]

Mr J.A. Coles: For groups like ours to invest in them, they are prepared to pay higher, whereas through Treasury Corporation, it goes out there. Our debt raisings are a range of 90 days, 12 months and two years—they are rolling. I am talking about an average. But there is available, if a person has a backing like Keystart with a successful record, cheaper money in the debt markets, particularly for short-term raisings, which is lower than what a bank will pay for deposits over \$10 million or \$20 million into investment accounts rolling on 90 days.

Mr J.C. KOBELKE: Minister, it sounds like we have a good deal here. Is the minister going to instruct Country Housing or Keystart to borrow a lot more money and invest it in the bank, because we are actually making a net return?

Mr T.R. BUSWELL: No, I am not; although I am interested to hear that. Mr Coles has just explained how that would come about. Not many businesses would be in that situation. The facts are we borrow money to pass on to our customers. That is why we borrow. We are required by the Australian Securities and Investments Commission to maintain some prudential reserves. Any windfall gain, if I can put it that way, in terms of interest profits to the organisation ultimately is returned by way of dividend through to the Housing Authority. Keystart is owned by Mr Searle as the exclusive shareholder—an arrangement I intend to investigate more fully! The Housing Authority collects the profit from Keystart. That is shown up in our statements pretty clearly. It is a

source of funds for the Housing Authority so that the profits generated from Keystart are reinvested into the delivery of social housing outcomes.

Mr P.C. TINLEY: Given we are talking about a loan book for the Country Housing Authority of less than \$100 million—\$63 million—versus \$3.49 billion, is there any contemplation of just doing away with the authority; having one board and unifying the whole thing?

Mr T.R. BUSWELL: I think there is probably a logic that that is where we will end up. It would be fair to say that we needed to make a transitional change in the first instance. The absorption of the Country Housing Authority's operations into Keystart was the first step. That has gone very well. There has been no negative response from the constituency of the Country Housing Authority in line with —

Mr P.C. TINLEY: I am trying to stay close to the Country Housing Authority piece because its client base is different, or ostensibly different. What is the average loan term for somebody in the Country Housing Authority? Is it different; and, if so, what is the difference?

Mr J.A. Coles: They can have a loan up to 30 years. On average, they tend to run 10 to 12 years.

Mr P.C. TINLEY: Keystart typically is three years, is it not?

Mr J.A. Coles: Keystart's average is 3.4 years. It can be up to five years; it differs.

Mr P.C. TINLEY: That is a fair difference.

Mr J.A. Coles: The reason for that difference is that Keystart borrowers start at Keystart and can move readily onto a bank. A farmer, obviously, who has an overdraft with the bank, has a lot more debt with the bank. It is a longer period before their home loan debt can be assimilated into their general farm business debt.

Mr P.C. TINLEY: Have there been any foreclosures? What is the bad debt situation with the Country Housing Authority?

Mr T.R. BUSWELL: My understanding is that it is almost nil.

Mr J.A. Coles: When Keystart took it over, it was about two per cent. Since Keystart has been running it—from the minister's initiative—there is zero arrears. At this stage, none.

Mr W.J. JOHNSTON: This is a question that probably relates just as much to Keystart. I understand, after attending Treasury estimates, that the WA Treasury Corporation has increased the loan fee, or whatever they call it, from 0.2 to 0.7 per cent for handling borrowings of —

Mr T.R. BUSWELL: No; we do not pay it.

Mr W.J. JOHNSTON: That is what I was going to get to. It does not have to be paid.

Mr T.R. BUSWELL: No.

Mr P.C. TINLEY: Why is that?

Mr T.R. BUSWELL: I have no idea.

Mr G.J. Searle: It is historical government policy in order to try to keep the process running.

Mr T.R. BUSWELL: My understanding is it is a legacy of a former Labor government.

Mr W.J. JOHNSTON: Aren't we good people! It would kill the authority if an extra half per cent was put on borrowings.

Mr T.R. BUSWELL: What it would do effectively, as the member would identify, is transfer some of the profit via that cost to a different part of government.

Mr P.C. TINLEY: What strikes me about the Country Housing Authority is that it has such a low loan book. What is the outlook? Is there a marketing problem or is it that people do not need the money? What is the intention? Noting this is a different client base than Keystart, is there something we are missing or are not offering or is it that people are doing really well in the bush?

Mr T.R. BUSWELL: It has a very limited application. It is promoted. I think the member is right—I am just looking back—since 1999, there has been one year of 300 loans. This year it will probably get to 80 or 90. It has fluctuated, but there has been a steady decline. I suspect there are also a lot of other financial products available now. New banks have entered into agricultural finance—Rabobank and others. They have become more aggressive. Is that right, Ian?

Mr I.C. BLAYNEY: One of the core bases of the Country Housing Authority was new-land farmers who could not qualify for housing under anything. There were plenty of people living in sheds and things like that. The

Country Housing Authority, by its criteria, was able to lend money to them to build houses. Of course there are a lot fewer new-land farms now, or there is none. I would say that is why its business has dried away.

Mr G.J. Searle: A lot of times this is actually used by farmers and small business men to buy a house for their son; for example, when their son is ready to move out of the family farm itself but wants to build another house on the property so the son can establish his family there, or a small business wants to buy a house to house their employees and those sorts of things. That is the usual thing. There is a bit of money now for renovations around remote area power systems. It tends to be something that is starting to happen out of this part of the area. It is a really narrow market. It is not as though there are 1 000 people who qualify; it is a very tight market. That is why the numbers are so small.

Mr P.C. TINLEY: I think Mr Searle also mentioned small business support. Is there a product within this authority?

Mr T.R. BUSWELL: No. It is money for housing, to small business people.

Mr G.J. Searle: That is why it is so small.

Mr W.J. JOHNSTON: We seem to be having a good conversation here.

The CHAIRMAN: This is the easiest one I have ever had to chair.

Mr P.C. TINLEY: We are guiding it to the big killer punch!

Mr W.J. JOHNSTON: We are about to go for the jugular!

Mr T.R. BUSWELL: Get on with it then!

Mr W.J. JOHNSTON: Keystart might want to answer this question. Is there a product that is currently not provided but it is thought it would be great to provide?

Mr T.R. BUSWELL: From my point of view, not that I am aware of. I certainly have not had any approaches to provide additional product. We are pretty happy with the mix. As the member indicated earlier, there is probably logic in doing that eventually. It would involve an act of Parliament. There is probably logic, as a machinery of government-type thing, to absorb the Country Housing Authority into Keystart in its entirety. As we pointed out earlier, they are pretty much one and the same organisation now.

Mr P.C. TINLEY: I suppose apart from the absorbed administrative operational cost within Keystart, which would not be significant, the only additional cost is the board.

Mr T.R. BUSWELL: Yes.

Mr P.C. TINLEY: And for any sort of secretariat or an administrative function for it.

Mr T.R. BUSWELL: Yes.

Mr P.C. TINLEY: How many are on the board?

Mr J.A. Coles: There are six.

Mr P.C. TINLEY: I presume they get a sitting fee?

Mr T.R. BUSWELL: Yes.

Mr P.C. TINLEY: Is that about the only cost?

Mr T.R. BUSWELL: Yes. I think the combined sitting fees of all the board members would probably be about \$100 000—maybe a bit less.

[9.20 am]

Mr W.J. JOHNSTON: We would want the boards of Keystart and the Country Housing Authority to have some people of good background. If there is a \$3.5 million loan book, a bit would be needed to be paid to get people of the quality the minister is looking for.

Mr T.R. BUSWELL: There has recently been a change in chairs of the board, and the chair of Keystart and the Country Housing Authority is now a person by the name of Andrew Whitechurch. Andrew is the former state manager of the National Australia Bank. I approached him, because I understand he left his position—I have no idea what else he does; it is none of my business—and I thought he would be an appropriate person to have looking after Keystart.

Mr P.C. TINLEY: This might be a question for Keystart as much as it is for the Country Housing Authority. Does Keystart or the Country Housing Authority pay fringe benefits tax?

Mr J.A. Coles: No; we do not pay it because Keystart is a trust.

Mr P.C. TINLEY: That is all I have on the Country Housing Authority.

Meeting suspended from 9.22 to 9.31 am

