



HomeStart Finance Annual Report 2004-2005

“ We’re providing affordable housing choices for South Australians ”



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From top to bottom:

Top picture

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Darren Garbin,
Marketing Analyst.

Second picture

Linh Duong,
Accountant.

Third picture

Trevor Bradley,
Process Analyst / Records
Management Officer.

Fourth picture

Darran Magill,
Loan Consultant &
Lawrie Moore,
Product Manager.

Letter of Transmittal

The Hon. Jay Weatherill MP
Minister for Housing
Parliament House
North Terrace
Adelaide SA 5000

30 September 2005

Dear Minister,

I am pleased to present the HomeStart Finance Annual Report for the year ended 30 June 2005.

This Report outlines the achievements and activities of HomeStart Finance over the past 12 months and on behalf of all HomeStart staff, I commend this Report for presentation to Parliament.

The Annual Report complies with the requirements of the *Housing and Urban Development (Administrative Arrangements) Act 1995 (SA)*, the *Public Finance and Audit Act 1987 (SA)*, the *Public Sector Management Act 1995 (SA)* and the Department of Premier and Cabinet Annual Reporting Requirements.

Yours sincerely,



Gary Storkey
Chief Executive Officer
HomeStart Finance

Welcome to HomeStart

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Our Mission

HomeStart's mission within the framework of government policy is to operate in a commercial manner to:

- develop, market and manage home finance and housing initiatives
- increase home ownership opportunities as a choice for low to moderate income households in South Australia.

Year in Review

We had an excellent year in 2004-05, increasing our annual lending to \$396.4 million and assisting 3286 new customers into home ownership (a 32% increase on 2003-04).

Throughout the year we continued to improve our existing product range, from our Seniors Loan equity conversion option, to the expansion of our Graduate Loan to include those with degrees or diplomas from TAFE or other Registered Training Organisations.

We developed bridging and portability facilities which will provide existing customers with more options if they choose to move house and we continued to provide affordable home loan options for our indigenous community through our Nunga Home Loan.

We launched an important new initiative - the EquityStart Loan, designed to assist public housing tenants make the shift to home ownership by purchasing either their existing rental home, another available public housing property, or a home in the private market. In this way, EquityStart will free up housing assets and provide funds to the new Affordable Housing Innovations Unit within the Department for Families and Communities (DFC).

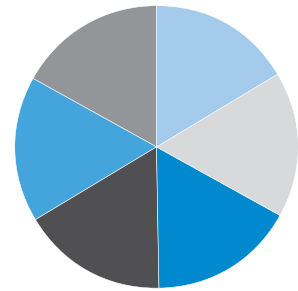
Our CommunityStart Loan for Community Housing Associations was also developed to provide affordable debt finance to increase the supply of social housing to low income South Australians.

The development of initiatives such as EquityStart and CommunityStart demonstrated our dedication to achieving the aims of the State Strategic Plan, and saw us forge and deepen our relationships with other government and industry organisations - in particular DFC and its related housing agencies.

Our commitment to social and community activities was also reaffirmed, with sponsorship of local events and programs reaching a diverse cross-section of the South Australian community in metropolitan and regional areas.

We were proud to be involved with many community-based organisations, foster a new relationship with the 'Come Out' Youth Arts Festival and maintain our involvement with the SA Youth Media Awards and the Council on the Ageing.

Our key drivers to success



- An effective and dynamic workforce
- A relevant and established product suite
- Innovative technological and product solutions
- A solid financial base
- A developing distribution network across metropolitan and regional South Australia
- Solid contribution to the community



HomeStart continues to provide innovative solutions that increase the opportunities for more South Australians to achieve home ownership, contributing substantially to government objectives, and helping to strengthen our communities. Gary Storkey, Chief Executive Officer.

Financially, we had another successful year, maintaining a balance between social and commercial objectives. We achieved our success through sustainable financial management, sound risk management practices, efficiency, professionalism and innovative support systems. In summary:

- Profitability continued to be achieved with an operating profit before tax of \$6.4 million
- \$12.7 million was paid to government this year
- Our capital base of \$136 million provided a solid platform for HomeStart to contribute to the wider social and community objectives of government
- Bad debts remained low
- A conservative provisioning policy is retained to protect stakeholder assets

We continue to offer home ownership opportunities to low to moderate income South Australians. As evidence of this, of new loans settled this year, 73% of customers had incomes less than the average weekly ordinary time earnings and 44% of customers had Centrelink benefits as their main source of income.

Addressing the growing affordability gap, we provided \$2.14 million in direct subsidy this year in the form of interest subsidised loans, with HomeStart's Advantage Loan providing an option for low income borrowers.

Acknowledging the ageing population and the increased need for supported accommodation, our Aged Care Loan was again made available in 2004-05, resulting in new funding covering an additional 68 aged care beds being approved.

We continued to provide free information sessions this year - through the HomeStart Women's Unit, the SA HomeBuyers Seminar Series and our MoneyWise Workshops. These events are vital in providing education on home ownership and home finance to people who may otherwise be unable to gain access to this information. Our Women's Unit was also responsible for organising an inaugural luncheon event for HomeStart's female staff.

Customer communications again reinforced our position in the community as a reliable and credible finance option. This was achieved through promotional advertising and regular delivery of customer information via newsletters and our website.

Our innovative approach to technology helped to improve our customer relationships, develop our internal infrastructure and upgrade links and services to our Loan Managers over the year.

Our Whyalla Information Centre proved to be a valuable point of contact for regional South Australians seeking home ownership opportunities, and in 2005 we will establish another centre in Murray Bridge.

A highlight for the year was the outstanding results returned from a survey of our staff. Independent research conducted by Quantum Management demonstrated that HomeStart achieved industry best practise results across areas such as employee satisfaction, internal service quality and staff retention and culture.

This reinforced our belief that our core strength is our talented workforce, supported by a culture that is focussed on continuous learning, flexibility and innovation. It is through the efforts of our staff that HomeStart could accomplish many objectives during the year, ensuring positive outcomes for our organisation, the state government, and the South Australian population.

Next year we expect to continue to drive positive outcomes through our ongoing commitment to innovative product solutions, and will maintain our provision of support, opportunities and challenges for our staff.

HomeStart is in great shape to respond to the objectives of the State Strategic Plan, the State Housing Plan and relevant targets of DFC in a positive and timely manner.

Our strategic plan and activities are based around some key themes which draw upon the essence of the objectives of DFC, and we are appreciative of the strategic direction and support provided by our Minister, the Hon. Jay Weatherill, MP.

We have the necessary skill base, financial strength and government support to continue to make a real difference and provide tangible home ownership choices for more South Australians.

In memorial



Sam Walters
9 January 1939 - 11 July 2005

Sam Walters, HomeStart's Board Chairperson for the past four years, was dedicated to making HomeStart the successful organisation that it is today.

An astute and highly regarded businessman, Sam was committed to improving the wellbeing of the marginalised sections of our community. He was well respected by all he came into contact with.

Sam's passing was a sad time for everyone at HomeStart who had witnessed the tremendous contribution he made on both a personal and professional level - a contribution that will continue to have a positive effect on the organisation as we move toward the future. He will be deeply missed.



It's great to be a part of the HomeStart team - the innovation and dedication of our staff is clearly a commitment to our goal of making South Australia successful.

Nyree Hughes, Customer Relations Group Manager.



Financial indicators

Return on equity	4.7%
Operating profit before tax	\$6.4 Million
Cost of subsidy provided	\$2.1 Million
Payments to government	\$12.7 Million

Balance sheet strength

Capital	\$136 Million
Net loan losses	\$0.02 Million
Loan assets	\$1.02 Billion
Capital adequacy ratio	18.7%

Our Role

Affordable home ownership is essential to the health, well-being and ongoing sustainability of our local communities. At HomeStart Finance, we are charged with the responsibility of helping to achieve this objective through the development and implementation of innovative housing solutions.

Our belief is that simple, effective housing policy is a key factor in shaping the society in which we all live and work, and the provision of affordable housing choices is central to driving a prosperous South Australia into the future.

HomeStart's role, within the framework of government policy, is to provide leadership and innovation in the housing sector by establishing solutions that enable more South Australians to fulfil their home ownership dreams.

We do this through our core strength - our people.

We uphold a fundamental alignment with the objectives of the state government and housing industry groups, melding this core responsibility with social and community activities, while maintaining a strong commercial focus.

Through this careful balance, we are well positioned to continue to deliver housing solutions and provide tangible social outcomes by addressing the issues that affect housing access - head on.

We have been involved in the development of the South Australian State Housing Plan and we are responsive to its multi-faceted approach to raising the bar for South Australia, specifically as it relates to providing affordable housing choices.

Our dedicated workforce sits as the centrepiece and the facilitator of these aims. We believe that success and leadership in our business activities is a direct result of high staff satisfaction and an internal culture that breeds a loyal, highly skilled and dynamic workforce.

About HomeStart

High interest rates and the lack of suitable home loans for less wealthy households in South Australia led to the establishment of HomeStart Finance in 1989 - the specific aim of our formation being to assist low to moderate income earners into home ownership through home loan financing.

Established as a statutory corporation under the *Housing and Urban Development (Administrative Arrangements) Act 1995*, we are empowered to:

- facilitate home ownership in South Australia by lending and providing other forms of financial assistance, including concessional terms for low to moderate income earners
- provide, market and manage home finance products and facilitate alternative schemes to encourage home ownership, including mortgage relief schemes, as well as facilitating finance for the development of aged care facilities and rental accommodation in regional areas.

In the ensuing years, we have operated within a commercial framework to deliver housing assistance to needs groups. We have built a substantial capital base and make ongoing and significant financial contributions to the state. Sound risk management underpins our strategic direction, financial management, product development and ongoing loan management to ensure our social and commercial aims are achieved.



The Housing Plan will return South Australia to the forefront of innovative housing policy and help improve the economic and social well being of individuals, families and communities.



Hon. Jay Weatherill, MP, Minister for Housing

Our ability to provide affordable home ownership choices for low to moderate income households has seen us:

- assist more than 48 000 South Australian households into home ownership
- inject more than \$3.4 billion into the state's property industry
- make payments of \$178.6 million to the government in the past 16 years
- achieve market leadership in the design, delivery and management of mortgage products for our target market and other needs groups
- stimulate regional housing development.

Our link with government is fundamental. We report to the Minister for Housing, the Hon. Jay Weatherill, MP, within the Department for Families and Communities, and our activities are co-ordinated with those of other public sector housing agencies through the Housing Management Council, a body comprised of Board and Executive representatives from each of the agencies.

Over the past year, affordability and access to home ownership have been consolidated as the key drivers for HomeStart. Our close ties and co-ordination with the state government and other housing agencies has assisted us greatly as we work toward our aim of offering '...more South Australians on low to moderate incomes an opportunity to live where they choose in homes they can afford...'¹ and we look forward to strengthening these relationships to deliver further housing solutions.

Our range of products and services allows us to fill a gap in the traditional lending market by addressing barriers such as home affordability, saving capacity and loan serviceability. As part of our charter, we also help people who require other forms of housing assistance - like carers who may need home adaptations, and seniors who may be able to utilise the equity in their current property to boost their available cash. This rounded approach to providing quality housing solutions typifies our method of providing home ownership solutions.

Our primary product, the HomeStart Loan, has a unique safety net that differentiates it from mainstream home loans. Linking repayments to income and CPI, rather than interest rates, our borrowers are provided with a measure of protection against interest rate increases and housing stress that may occur as a result of escalating repayments.

1. Minister for Families and Communities (2005), Connecting to the Future: The Strategic agenda for the Department for Families and Communities 2005-2008.

The Advantage Loan is our self-subsidised product that gives customers, who may be on a lower income, an extra boost to their borrowing power - an important feature in a property market that has recently experienced strong price growth.

The past year also saw the creation of the EquityStart Loan initiative, a key plank of the State Housing Plan. Available to social and community housing tenants, EquityStart was created to provide an opportunity for tenants to get out of the rent cycle and into home ownership.

The EquityStart Loan involves the provision of a subsidised home loan of up to \$50 000 in conjunction with a standard HomeStart Loan - which can significantly increase access to home ownership. It is also a vehicle for leveraging social housing assets into additional housing outcomes, such as affordable rental housing and dwellings for 'high needs' people.

We continually create, review and revise ways in which we can assist needs groups within our community, who may be disproportionately vulnerable to homelessness and other housing problems.

The success of endeavours such as the Nunga Loan, our loan for Indigenous South Australians, specific information seminars for women, and programs like SmartPath, which is run in selected schools in northern and southern suburbs, is solid evidence that policy set within the State Housing Plan is being met through HomeStart's achievements.

Affordable and sustainable housing, like health and education, is fundamental to improving the quality of life for the South Australian community and we subscribe to the notion that the social and economic infrastructure of the state is enhanced by the provision of home ownership.

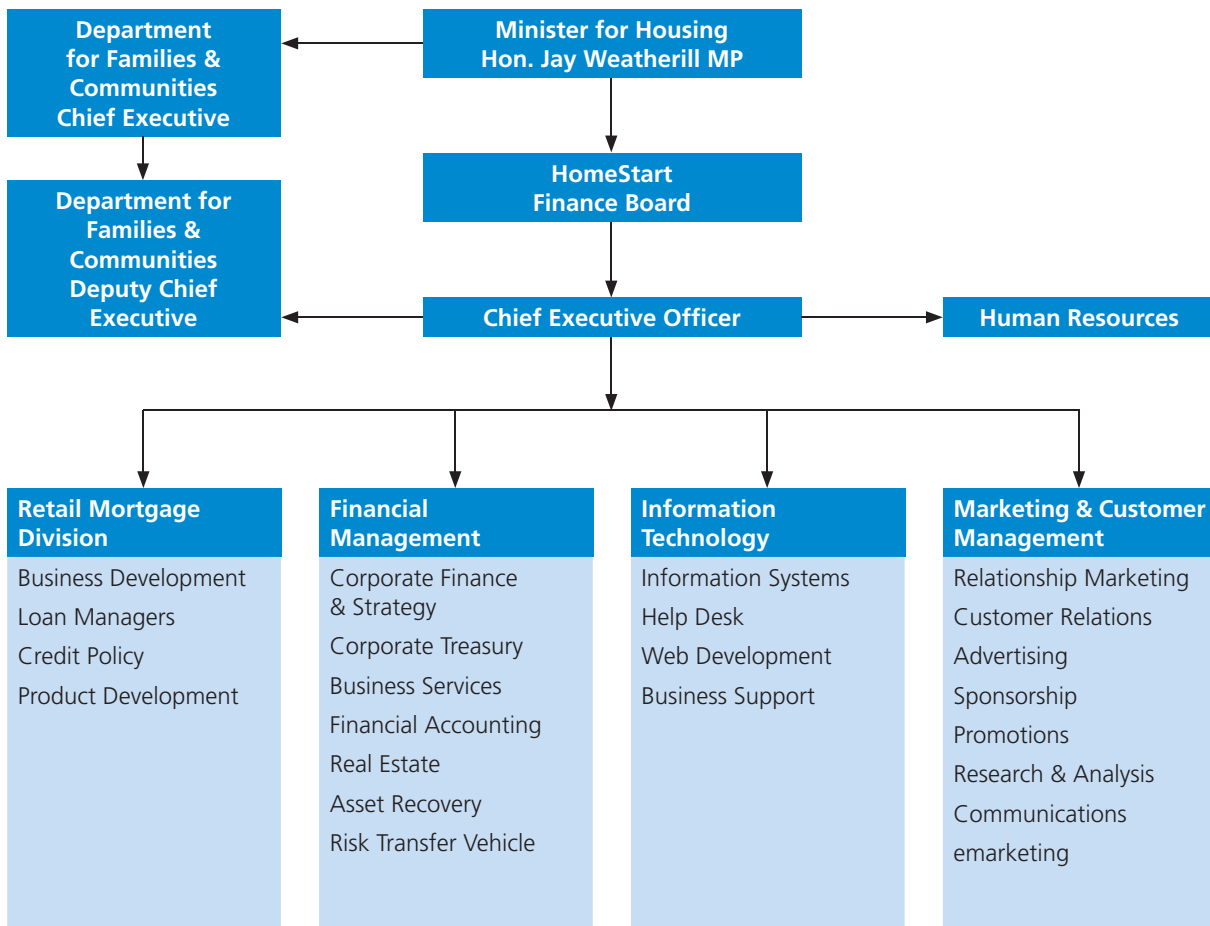
As such, we will continue to respond to the deterioration in housing affordability by developing products and services that take action and answer this need - and we have never been in a better position to address this vitally important issue.

HomeStart's contribution to the State Strategic Plan

State Strategic Plan objectives & targets	HomeStart's contribution
Growing Prosperity	Key member of the SA property and housing sector. More than \$3.4 billion injected into the property sector since inception
Total Population	Assists with attraction and retention of population by providing home ownership opportunities
Interstate Migration	Contributes to keeping young professionals in SA by promoting home ownership via the Graduate Loan and Low Deposit Loan products
Overseas Migration	Will provide affordable home ownership opportunities for migrants
Creativity	Continuously assesses new product needs, reviews existing products, develops innovative products, services and information technology
Women in Leadership	Focussed internal training and development for female staff, three women Board members and three female Executives
Regional Population Levels & Infrastructure	Facilitates the development of new homes in growing regional towns and provides home loans in regional areas
Aboriginal Wellbeing	Nunga Loan for Indigenous South Australians
Disability	Carers Loan, development of the Supported Accommodation Loan with Julia Farr Services
Affordable Housing	Creates home ownership opportunities for low to moderate income South Australians and niche needs groups through the provision of innovative products and services - a cost effective means of delivering social housing policy outcomes



“ We’ve assisted over 48 000 people with their home ownership aspirations, injected more than \$3.4 billion into the state’s property industry and made payments of \$178.6 million to government – it’s rewarding to be part of that success. Ryan Shepherd, Communications Manager. ”



Innovative Housing Solutions

Housing affordability - closing the gap

Owning a home. For many South Australians it's still 'the Great Australian Dream'. Today, the reality for many people on lower incomes is that the opportunity to pursue this dream has become restricted and, while home ownership remains an option, the capacity to access adequate and affordable housing is in decline.

The surge in property prices has exacerbated the divide between aspirations and the attainment of sustainable home ownership, resulting in a marked lack of supply of reasonably priced housing.

Added to this, the increasing demands on a limited stock of public housing, the increasing costs associated with that stock and the targeting of new public housing tenants in high needs groups are all factors that make accessing public housing a challenge for some people in the community.

Even those who are not reliant on public housing are finding themselves unable to secure sufficient finance to become home owners - often a result of restricted income, limited savings or other debt commitments.

More recently, affordability has become a problem facing broader sections of our community, from graduates looking to settle or remain in South Australia, to our older community seeking to maintain their independence and a decent standard of living.

The gap between the South Australian median house price, average loan size, and full time earnings is widening, and assuming that historical average annual growth rates from the last 20 years continue, the situation will only worsen.

Providing solutions

HomeStart is dedicated to providing solutions that can assist people for whom traditional loan products do not work.

Our professional workforce is the key facilitator of this work. They recognise the importance of our role and understand the circumstances that may hinder access to home ownership.

Our approach to new product development and enhancing existing products is fundamental to our solutions-based culture. Every new product is aligned to an identified goal in the State Strategic Plan, a need within the local community or a specific housing market issue.

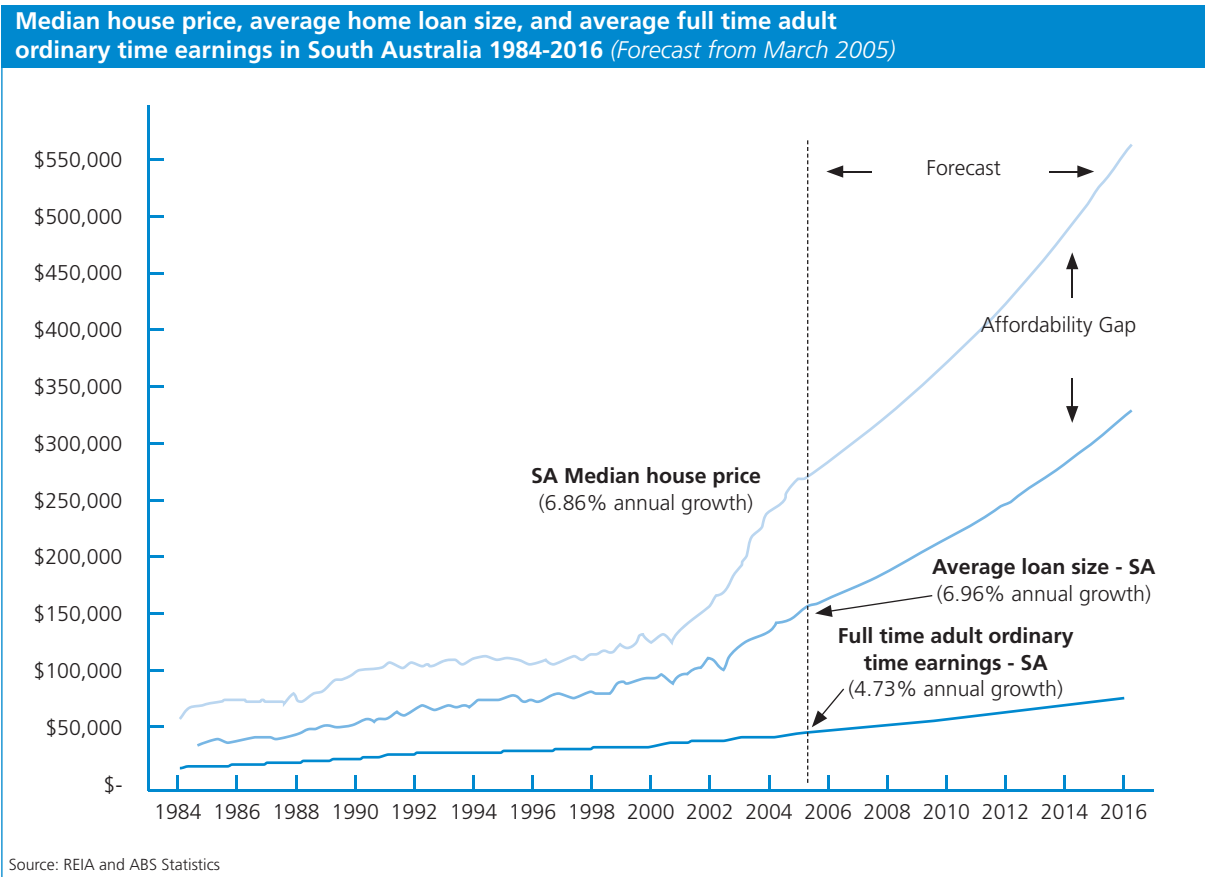
In addition, we consider the relative financial, promotional and organisational implications of this work through an operational structure that fosters collaboration by cross-functional work units and organisation wide implementation plans.

In the past year, we have again excelled in providing products that benefit the community, while also protecting our financial position in the long term. It is also clear that we provide affordable home loan choices to the segments of our community that traditional financial institutions have been unable or unwilling to satisfy. Thus our original purpose is still highly relevant today.



“ We address the affordability gap through many different angles, from housing supply issues, product innovation to the cultural needs of our customers. We create solutions that will really make a difference. ”

Megan Thorpe, Product Analyst.



Our customers

Our success in providing affordable housing solutions is revealed in new customer demographics for 2004-05.

- 73% of customers had incomes less than the average weekly ordinary time earnings (which was \$919.50 or \$47 814 per year) as at 30 June 2005.
- 40% of customers had an annual income less than \$22 000.
- 44% of customers had Centrelink benefits as their main source of income.
- 46% were women (with 34% being single).
- 17% of customers utilised the subsidised Advantage Loan.
- 40% of customers received the First Home Owner Grant.
- 56% of loans were to single income households.
- 36% of customers were previously living in private rental accommodation.

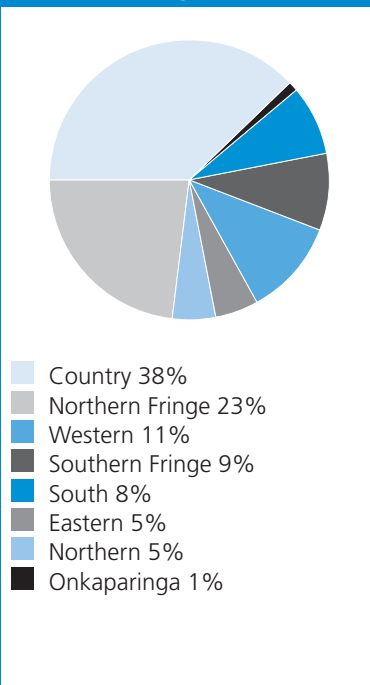
The northern suburbs represented 28% of new loans by geographical location, southern suburbs 17%, western suburbs 11% and country and regional areas 38%.

Product innovation

Over the past year, HomeStart has continued to contribute to state targets by implementing sustainable product innovation and ensuring that our loan facilities and other programs support local communities and contribute to the economic growth of the state.

We have addressed the financial, supply, and social issues that impact on customer affordability through the extension and continued success of existing products, as well as the introduction of new loan products for various niche groups.

Geographical Distribution of New Lending



The HomeStart Loan

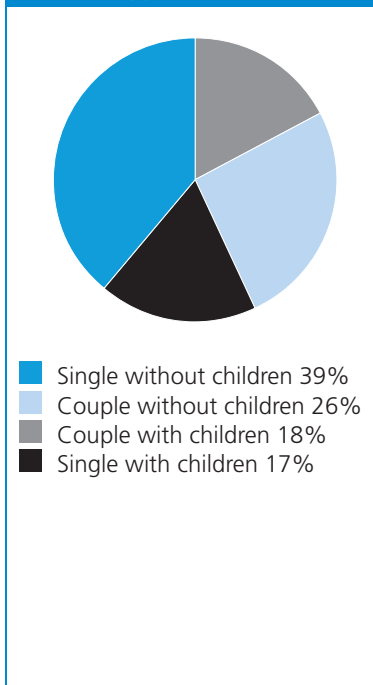
Our traditional home loan product, the HomeStart Loan, is the flagship and long-established solution to affordable home finance. The loan was first introduced when high interest rates were impacting on loan affordability and opportunities for low to moderate income earners were in decline.

In 2004-05, an amendment to the maximum borrowing amount for the HomeStart Loan was approved, allowing it to be adjusted quarterly in line with the Adelaide median house price. This represented a tangible solution for overcoming the decline in home affordability.

The Advantage Loan

Our unique Advantage Loan product is specifically designed to assist lower income earners, who may face considerable challenges in gaining access to affordable home ownership opportunities.

Marital Status of Main Applicant



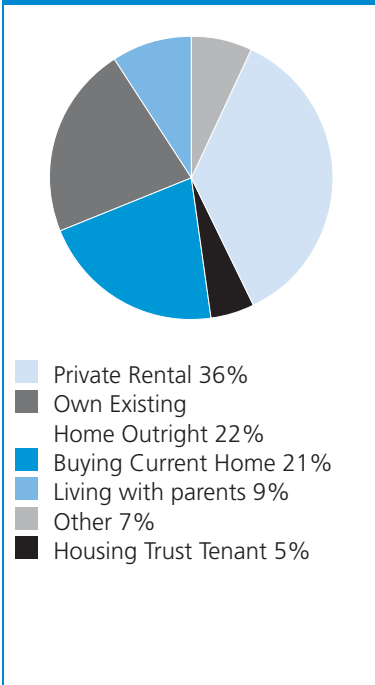
Available to people earning less than \$33 800 per annum (before tax), the Advantage Loan acts as a 'top-up' on a variety of HomeStart Loan products - providing an extra boost to buying power. We provide a direct subsidy through the Advantage Loan in the form of an interest rebate period or low interest option.

In 2004-05, 561 Advantage Loans were written to a total value of \$9.8 million.

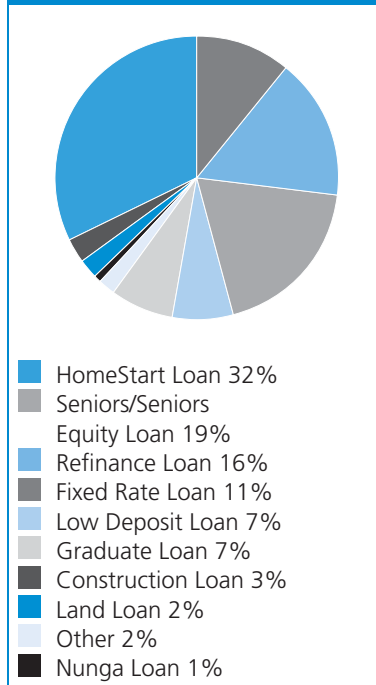
Bridging and portability options

The past year also saw the development of more loan options for our existing customers. A bridging loan will offer customers, who may be moving from their current address, an option to buy a new home before they sell their current property. Our portability based product will provide an opportunity for customers to transfer from an existing property to a new property without repaying their loan - in effect, taking their loan with them.

Previous Accommodation of Main Applicant



Value of Loans Settled by Main Product Types



Seniors Equity Loan

HomeStart's Seniors Equity Loan, developed as a housing solution for older people, achieved great success this year. This equity conversion product enables eligible seniors to remain in their home while releasing a portion of its value to augment their disposable income. In 2004-05, 528 loans were settled to a total value of \$21.8 million.

Community lending initiatives

We continued to build relationships with various needs groups through the work carried out by our Community Lending Team, and the appointment of an Indigenous Trainee who has been working with our group of experienced lenders and consultants. This appointment was also made in response to the State Strategic Plan's objective of increasing Aboriginal wellbeing and expanding the number of Aboriginal employees in the South Australian public sector.

The EquityStart Loan

Our new EquityStart Loan was designed especially for public housing tenants and increases their ability to purchase a home of their own. Over 5000 public and community housing tenants have registered an interest in this loan and we look forward to seeing home ownership become a reality for them in the near future.

CommunityStart Loan

In April 2005 the HomeStart Board approved the CommunityStart Loan for Community Housing Associations. This facility will provide affordable debt finance to increase the supply of social housing to low income South Australians. Four pilot programs will be undertaken in the next year, to the value of \$3 million, to promote and assess the facility and to identify demand. This new product will meet several of the State Housing Plan objectives.

Graduate Loan

In response to the ongoing popularity of our Graduate Loan, lending criteria was amended to include people with a degree or diploma from TAFE or another Registered Training Organisation, as well as enrolled nurses and South Australian Police Officers.

The Graduate Loan is designed to assist young people who may not have otherwise been able to access the housing market. In 2004-05, 229 Graduate Loans were settled.

Nunga Loan

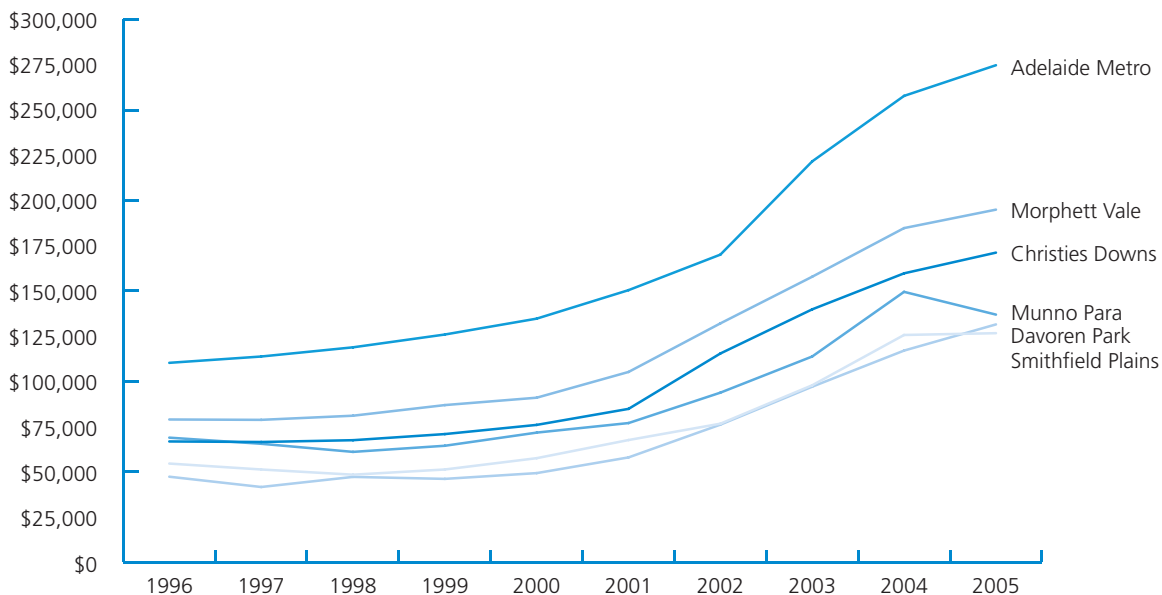
Our Nunga Loan continued to meet the home ownership aspirations of our Indigenous population, with 142 loans now settled. It has been a successful way for us to assist with reducing the gap between the outcomes for South Australia's Aboriginal population and the broader South Australian population - a key objective outlined in the State Strategic Plan.

This team will be responsible for the implementation of a new loan designed to develop home ownership opportunities for people with a disability, in partnership with Julia Farr Services.

We are also developing links with our growing migrant community in South Australia. The establishment of a Migrant Traineeship and the appointment of Arkanjelo Ring Mayol was an important step in our efforts to provide a mutually beneficial connection with his community group.

Concurrently, the HomeStart Board has approved the tailoring of specific loan products for skilled migrants, set to be implemented in 2005-06. It is expected that this solution will be a variation on our existing HomeStart Loan, with changes to certain eligibility criteria in recognition of the specific needs within the migrant community.

Median house prices - selected suburbs



Source: Land Services Group (SA Government)

Disability

Our services incorporate the recommendations from the Promoting Independence - Disability Action Plans for South Australia to ensure accessibility to people with disabilities. Our internal lending guidelines provide lenders with procedures to follow when presented with an applicant who has an intellectual or physical disability.

Our distribution network

In addition to our two Adelaide offices and our Whyalla Information Centre, we continued to service potential and existing customers through four recognised and respected lending organisations: BankSA, Bernie Lewis Home Loans, HomeLoans Plus and The Home Loan Centre.

In 2005-06, our regional distribution network will continue to expand with the opening of another Information Centre in Murray Bridge. Increasing the availability of our services to people in both metropolitan and regional areas is a principal objective at HomeStart, and we will continue to look at these opportunities into the future.

Regional housing

In conjunction with the Land Management Corporation (LMC), we also recognised the housing needs of regional communities experiencing economic growth but lacking the housing infrastructure to accommodate key workers. 32 homes are to be built at Naracoorte by Empak Homes on land owned by LMC, with HomeStart to provide home loan products to the eventual home owners.

Customer communications

On the communications front we focussed on creating awareness through television, press, outdoor advertising and sponsorship activities in many of the areas that are home to our customers. Through our ongoing promotional, sponsorship and campaign work we maintained our existing message that HomeStart can deliver 'smart' home loan solutions.

We launched the 'Opening Doors' communications plan, designed to educate our existing customers on their various home loan options and reiterate the benefits of their relationship with HomeStart. These messages were communicated via a quarterly customer newsletter, various direct marketing campaigns, a revised customer welcome pack and guide and a specifically designed customer website.

As part of our commitment to assisting Aboriginal South Australians make informed decisions on their future housing needs, we developed the 'Nunga News' newsletter. This has become an effective vehicle to educate our Indigenous customers on the home ownership journey.

The Customer Relations Group also undertook dedicated customer survey work throughout the year. The results were useful as we continued to find new ways to understand the needs of our customers and deliver more housing solutions that are tailored to their requirements.

Community languages

HomeStart supports and practices multicultural diversity and provides interpreting and translating services in accordance with state government policy. We offer information about our loan products and services in 12 different languages: Arabic, Chinese, Croatian, Filipino, Greek, Italian, Khmer, Persian, Polish, Serbian, Spanish and Vietnamese.

Innovative technology

Throughout 2004-05, we continued to enhance customer service through new technology and the use of online channels. Our Lead Application Recording System (LARS) kept pace with product development, processing over 15 000 potential customers.

The Web Team continued to enhance our online distribution point, redeveloping our secure 'ehomestart' facility and updating our public website to enhance user experience and increase lead generation. This website also has accessibility features for the visually impaired.

Work has begun on an online loan application system, a project that will provide potential customers with an opportunity to apply for a home loan via a secure website.

The development of www.openingdoors.com.au was another significant step forward in our online landscape. This new website offers customers a one-stop information portal on current home loan information, product enhancements and a frequently asked questions section.

To support all this work, major investment into our Information Technology (IT) infrastructure was made in 2004-05. This included the replacement and upgrading of all business critical servers, a redesign and restructure of our IT network and upgrading of links and services to Loan Managers.

The impending relocation to our new head office at 153 Flinders Street provides a unique opportunity for the redevelopment of our IT infrastructure. The year ahead will see significant investment into new technology and innovation which will deliver enhanced levels of service and support for both our customers and staff.

Our product and service features at a glance

Accessing HomeStart	Product Features
www.homestart.com.au	HomeStart Loan (maximum linked to median house price)
www.openingdoors.com.au	HomeStart Loan variable interest rate 7.47%
ehomestart online loan facility	Advantage Loan (\$26 000 maximum)
128 Loan Manager locations in SA*	Advantage Loan subsidised interest rate 2.34%
Website and brochures in 12 languages	Fixed and split rate options
Extended opening hours	No mortgage loss insurance
Women's Unit	Redraw facility available
New office opening in Murray Bridge	Repayments linked to income

*Through any of the BankSA branches as well as the offices of HomeLoans Plus, The Home Loan Centre, Bernie Lewis Home Loans and HomeStart Finance.

HomeStart's People

At HomeStart, we understand that in an ever changing and fast paced environment, maintaining staff performance and morale is crucial to our ongoing business success.

Our staff are our most valuable resource, and we work vigorously to support them by providing opportunities for further learning, encouraging communication between staff and Management, special 'staff days' away from the workplace and cross-functional team involvement.

Over the past few years, we have experienced a steady growth in staff numbers to support our growing business. We have expanded from 78 employees as at 30 June 2004, to 88 employees as at 30 June 2005, and have worked continually to improve our human resource management over that period.

Employing people from outside of the business continues to develop and evolve our culture, and we strongly believe that it is the outstanding performance of our workforce that has driven our successes.

HomeStart is proud of its culture - an enviable combination of social and commercial themes with a staff group characterised by their high regard for self-development and continuous learning.

Within the framework of government policy, our Board and Chief Executive Officer establish policies and procedures governing how HomeStart operates. Learning and growth constitute a major feature of this policy and we are steadfast in our aim to remain an organisation that fosters and reflects our core values.

Independent research conducted by Quantum Management in April 2005 further demonstrated that our foundation for achievement is built on a dedicated, highly skilled and dynamic workforce that understands the organisational vision and strives to achieve our goals.

Our belief is that the internal culture drives the external experience for our customers, stakeholders and other government and community partners - and it was upon this principle that we focused this organisational research and analysis.

Benchmarked to the finance and state government sectors, the results demonstrated that HomeStart is a leader in Key Performance Indicator (KPI) areas such as:

- employee satisfaction and engagement
- internal service quality
- staff retention and culture.

These results provided our Executive Team with tangible evidence of our healthy internal culture. We will maintain our focus on continuous improvement and ensure that attention is placed on emerging areas of opportunity for the organisation.

Communication and innovation

At HomeStart, we hold regular staff meetings that build trust and understanding within our organisation. Our Chief Executive Officer discusses current business developments and accepts new ideas from staff in an open and engaging fashion.

The opinions of our staff are sought at all levels of strategic and business development and are regularly updated through face-to-face communication forums. From the external research undertaken, our staff's satisfaction with HomeStart's level of communication scored an 85% favourable result.²

Employee working environment

We encourage staff to work autonomously wherever practical, allowing them to manage their own time and develop practices based on their individual ideas and skills. This occurs parallel to our internal control requirements and with team collaboration where appropriate.



At HomeStart there are no boundaries between staff. Interpersonal interaction is an ideal, and team work and information sharing are the major part of our daily activities.

Arkanjelo Ring Mayol, Migrant Trainee.

Number of employees using voluntary flexible working arrangements by gender

	Male	Female	Total
Purchased Leave	0	0	0
Flexi-Time	10	14	24
Compressed Weeks	0	0	0
Part-time Job Share	2	15	17
Working from Home	19	15	34

This year, a cross-functional committee was set-up to further develop employment conditions for staff. Through the committee, staff were able to negotiate with the organisation for conditions that recognise their contributions, family/ life balance and societal trends, which will ultimately lead to mutually beneficial outcomes such as:

- improved employee satisfaction
- improved productivity
- a highly motivated workforce.

Flexible working arrangements

We provide staff with a range of flexible working arrangements that can help them to manage their work and other responsibilities. From the external research undertaken, our staff's satisfaction with family/ lifestyle balance achieved an 84% favourable result.

The table above outlines the number of staff engaged in flexible working arrangements.

Learning and growth opportunities

Our commitment to continuous learning and professional staff development is driven by our belief that superior organisational performance can be achieved through the creation and maintenance of a culture that respects and promotes learning and development.

As confirmation of this, staff satisfaction with access to training was 90% favourable, opportunities for skill improvement 89% favourable and access to learning programs 90% favourable.

All HomeStart employees have the opportunity and are encouraged to participate in learning and development activities, and we have a 5% benchmark for training expenditure against total remuneration. In 2004-05, a total of \$207 656 was spent on training through a combination of further education, specific training courses, leadership and management programs, and in-house initiatives. HomeStart's commitment to staff development has resulted in 9.1% of current HomeStart staff having Master of Business Administration qualifications obtained with our support.

The development and implementation of team building opportunities for all staff is another priority and we view this as a core device to improve organisational development and reiterate our culture.

In 2004 the inaugural Opening Doors Research Grant (since renamed the Sam Walters Research Grant) was launched. Each year, this grant funds a staff member to undertake research of benefit to HomeStart. Megan Crook was the first recipient, and in August 2004 she spent three weeks in the United States researching home ownership education. The total cost to HomeStart (including salary) was \$10 542.

Our annual 'Opening Doors' staff day was held in May 2005 and involved staff coming together to review our future direction, engage in team building and social activities and present a group understanding of the importance and relevance of our culture.

We believe that an investment in our staff fosters enhanced working relationships, greater understanding of our future direction and expectations and has a positive impact on employee morale and motivation - all critical elements in a successful organisation.

HomeStart's Women's Unit was responsible for organising 'Talking with your mouth full', a luncheon event for HomeStart's female staff. The theme was meaningful and healthy conversation, an important key ingredient to innovation, change and learning. The participation of HomeStart Board member, Dr Ann Darwin, was integral as she provided attendees with a refreshing view on the essence of conversation.

External development

Seven staff are currently studying for a Diploma of Mortgage Lending with the Securities Institute of Australia. Other staff members are also undertaking studies with; the Securities Institute, University of South Australia, University of Adelaide, various TAFEs, Deakin University and Macquarie University.

19 staff graduated in a variety of courses this year. At the present time, 69% of HomeStart staff hold a tertiary qualification.

Continuous improvement of our people

Half-yearly Staff Development Reviews (SDRs) are conducted for all HomeStart staff. Past performance, future goals, ongoing development and individual needs and aspirations are discussed in this open and supportive environment. Our SDR practice will be a focus of review and enhancement for HomeStart in the coming year - another example of our commitment to quality performance measures, feedback and recognition strategies for all staff.

Equal employment

HomeStart is an equal opportunity employer that encourages diversity in its workforce across age, gender and personalities. Staff satisfaction with HomeStart's response to equal employment practices showed a 93% favourable result.

HomeStart is committed to creating an environment in which staff from differing backgrounds and styles can work well together. When surveyed on the level of satisfaction with HomeStart's performance in this area, staff indicated 80% favourable.

The following initiatives are examples of our commitment to equal opportunity employment:

- Migrant Traineeship
- Indigenous Traineeship: Mortgage Lending Consultant
- Youth Traineeship: Corporate Reception.

Maximising opportunities for people with a disability

We do not currently employ any persons with a permanent disability. However, we have complied with the requirements of the *Disability Discrimination Act 1992* and the *Equal Opportunity Act 1984*. We ensure that our recruitment policies and procedures are inclusive of those with a disability.

Investment in Staff Training	2004-05	2003-04	2002-03	2001-02
Training expenditure as a percentage of total remuneration costs	3.58%	4.09%	3.89%	3.44%

We congratulate those who graduated this year	
Course	Staff
Diploma of Mortgage Lending	Paola Davis; Darren Garbin; Nyree Hughes; Davern Lim; Dean Matthias; Ian Nottage; Pavlina Riosa; Elda Robinson; Elizabeth Storkey; Monica Stratton
Graduate Certificate in Management	Phil Di Girolami; Peter Thiele; Michael Veasey
Certified Practising Accountant	Michelle Feeney
Bachelor of Accounting	Linh Duong
Master of Public Policy	Desiree Holland
Bachelor of Economics	Megan Thorpe
Certificate III in Occupational Health & Safety Certificate IV in Assessment & Workplace Training	Michelle Richardson
Certificate III in Mortgage Lending	Helen Washington

Employee numbers, gender and status			
Persons		88	
Full Time Equivalents		82.8	
		% Persons	% FTE's
Male		45.4	47.3
Female		54.6	52.7
Number of persons separated from the agency during the 04-05 financial year		9	
Number of persons recruited to the agency during the 04-05 financial year		18	
Number of persons on leave without pay at 30 June 2005		1	

Number of employees by salary bracket			
Salary Bracket	Male	Female	Total
\$0 - \$38 599	6	14	20
\$38 600 - \$49 999	11	13	24
\$50 000 - \$65 999	9	11	20
\$66 000 - \$85 999	9	4	13
\$86 000 +	5	6	11
Total	40	48	88

Status of employees in current position					
Full Time Equivalent					
	Ongoing	Short-Term Contract	Long-Term Contract	Other (Casual)	Total
Female	0	7.7	36	0	43.7
Male	1	5.1	33	0	39.1
TOTAL	1	12.8	69	0	82.8
Persons					
	Ongoing	Short-Term Contract	Long-Term Contract	Other (Casual)	Total
Female	0	9	39	0	48
Male	1	6	33	0	40
TOTAL	1	15	72	0	88

Number of Executives by status in current position, gender and classification								
	Ongoing		Contract Tenured		Contract Untenured		Total	
	Male	Female	Male	Female	Male	Female	Male	Female
TOTAL	0	0	0	0	4	3	4	3

Average day's leave taken per full time equivalent employee				
Leave Type	2004-05	2003-04	2002-03	2001-02
Sick Leave	5.1	5.6	5.2	4.8
Family Carer's Leave	0.8	0.3	0.2	0.6
Special Leave With Pay	0.9	0.5	0.7	0.2

Number of employees by age bracket & gender					
Age Bracket	Female	Male	Total	% of Total	South Australian Workforce*
15-19	1	0	1	1.1%	7.4%
20-24	2	1	3	3.4%	11.3%
25-29	8	7	15	17.0%	10.0%
30-34	10	6	16	18.2%	10.7%
35-39	6	7	13	14.8%	11.1%
40-44	10	5	15	17.0%	12.2%
45-49	5	7	12	13.6%	12.3%
50-54	3	4	7	8.0%	11.3%
55-59	1	2	3	3.4%	8.1%
60-64	2	1	3	3.4%	4.0%
65 +	0	0	0	0.0%	1.6%
TOTAL	48	40	88	100.0%	100.0%

* Benchmark as at February 2005 from ABS Supertable LM8



It's significant that 93% of staff believe gender and cultural background aren't barriers to success within HomeStart.

Cindy Hall, Marketing Assistant.

Number of Aboriginal and/or Torres Strait Islander employees

	Male	Female	Total	% of Agency	Target*
Aboriginal/Torres Strait Islander	1	0	1	1.1%	2.0%

* Target from South Australia's Strategic Plan

Cultural and linguistic diversity

	Male	Female	Total	% of Agency	SA Community*
Number of employees born overseas	7	10	17	19.3%	20.3%
Number of employees who speak language (other) than English at home	5	8	13	14.8%	15.5%
Total	12	18	30	34.1%	

* Benchmarks from ABS Publication Basic Community Profile (SA) Cat No. 2001.0

Training expenditure as a percentage of total remuneration expenditure by salary band

Salary Bracket	Target 2004-05	Actual 2004-05	Target 2005-06
\$0 - \$38 599	-	0.2%	-
\$38 600 - \$49 999	-	0.7%	-
\$50 000 - \$65 999	-	1.2%	-
\$66 000 - \$85 999	-	0.5%	-
\$86 000 +	-	1.0%	-
TOTAL	5.0%	3.6%	5.0%

Working with Government & Community

Collaboration and partnerships are critical to the successful completion of our objectives at HomeStart. We work with other government agencies, the private sector and community organisations, combining our knowledge and resources to achieve optimum outcomes.

During the year, we were proud to be involved with many industry and community-based organisations. Relationships were fostered with the South Australian Young Achievers Awards and the Come Out youth arts festival. We maintained our involvement with the South Australian Youth Media Awards and the Council on the Ageing.

The implications of home ownership for the community and its related impacts on education, social wellbeing and health continued to be a focus at HomeStart this year.

The EquityStart initiative

EquityStart is a key plank of the State Housing Plan, offering social housing tenants a subsidised home loan and providing them with a greater opportunity to access home ownership.

The initiative is also a vehicle for leveraging social housing assets into the Affordable Housing Innovations Fund which will foster additional housing outcomes (such as affordable rental housing and dwellings for 'high needs' people).

Combined with our standard product range, EquityStart offers a genuine opportunity for social housing households to overcome the affordability barriers they may face. An EquityStart Loan is taken up in conjunction with a HomeStart Loan, providing an additional loan of up to \$50 000, over and above what a tenant might normally be able to borrow from HomeStart.

EquityStart enables tenants to increase their buying power, and allows us to address the financial challenges that currently impact on many South Australians - as highlighted in the strategic agenda for the DFC.

Delivery of the EquityStart initiative will continue throughout 2005-06, and our staff will continue to work closely with the South Australian Housing Trust (SAHT), the Aboriginal Housing Authority (AHA) and the South Australian Community Housing Authority (SACHA). We would like to thank these agencies for their ongoing assistance in the implementation of this important program for DFC and our Minister.

Aged Care lending

Our Aged Care Loan supports the elderly in our community by providing not-for-profit aged care operators with an interest subsidised Advantage Loan of \$12 000 for every new bed licence (limited to 20% of the size of the total loan).

New funding covering an additional 68 aged care beds was approved in 2004/05.



So far, we've received over 5 000 registrations of interest in EquityStart, a key plank of the State Housing Plan. This initiative has real potential to change lives for the better.

Tracey Johnson, Customer Relationship Manager.

EquityStart Key Performance Indicators as at 30 June 2005	
Number of registrations of interest	5129
Number of applications	1018
Applicants proceeding to next stage	53%
Applicants wanting to purchase public housing property	63%
Applicants wanting to purchase in the private market	14%

The HomeStart position

We continue to complement our mainstream 'smart campaign' promotional efforts with a sponsorship program that is designed not only to promote affordable housing solutions to our key stakeholders and potential customers, but to make a significant contribution in the local community.

It is important to ensure that people are aware of their home ownership opportunities with HomeStart. As such, community awareness of our activities was measured through an independent survey commissioned in late 2004.

The survey asked 400 adults, living in the top 20 postcode areas of South Australia where HomeStart loans are settled, questions about our position in the marketplace. The 2004 survey revealed the following:

- Unprompted awareness of HomeStart was 9%, the equal fourth highest proportion amongst financial institutions.
- Prompted awareness of HomeStart was high at 90%.
- HomeStart ranked eighth when respondents were asked what home loan suppliers were top of mind.
- Almost three quarters of people surveyed indicated an awareness of HomeStart advertising.

SA HomeBuyers - Information Seminar Series

Education seminars for the community were maintained as part of our involvement as the major sponsor of the SA HomeBuyers - Information Seminar Series. In conjunction with other sponsors, seven events were held during 2004-05 in Norwood, Marion, West Lakes, Gawler and Mt Barker.

Over the year, approximately 800 people attended the seminars, with 95% indicating that they benefited from the information, and 95% also indicating that they would recommend the seminars to someone else.

Women's Unit

The activity of HomeStart's Women's Unit in 2004-05 represented our ongoing contribution to the female community by providing information on home ownership and housing policy specifically for women.

Public information seminars were again delivered, focussing on home loan financing and the purchasing process. The sessions, held both in metropolitan and regional South Australia, were highly successful in attracting women of all ages and nationalities - including a number of Indigenous South Australians and many first home buyers.

Single women make up almost half of our customer base - since 2000, women have secured 4781 of the total 11 034 HomeStart Loans, accounting for 43% of business. Of these women, 84% were single. Women also accounted for 45% of first home buyers in 2004, a figure which rose to 50% in January and February 2005.

SmartPath

The SmartPath Vocational Guidance Program was developed as an educational tool to give students in northern and southern suburb area schools the ability to understand their skills and match a potential career path.

This knowledge enables them to select relevant subjects for study in Years 11 and 12. The program also includes training in resumé development and interview skills to assist students who decide to enter the workforce and equip them to present themselves as well as possible in job interviews.

MoneyWise Workshops

We continued to provide free information sessions this year in the form of MoneyWise Workshops which help both the community, and our customers, learn how to better manage their finances. These workshops are vital in providing financial education to those people who may otherwise be unable to gain access to this information.

Adelaide Thinker in Residence - Rosanne Haggerty

HomeStart is a partner in Rosanne Haggerty's program in Adelaide as a 'Thinker in Residence' and was instrumental in arranging her visit in March 2005. Rosanne is the founder of Common Ground Community, a not-for-profit housing and management organisation in New York City, which provides innovative housing opportunities for homeless adults.

Rosanne's key objectives for her return visit in 2006 are to assess South Australia's current situation and advise on policies and strategies to achieve more efficient and effective housing assistance programs.

Indigenous Home Ownership Celebration

Our Indigenous Home Ownership Celebration formally acknowledged the 100th HomeStart Nunga Loan and 50th Aboriginal Housing Authority Loan (granted as part of the AHA Home Ownership Pilot Project).

Minister Weatherill attended the event, along with key community stakeholders, organisational representatives and local Indigenous identities.

We look forward to continuing the development and promotion of the Nunga Loan next year, as the HomeStart Board has approved the provision of up to another 150 loans for settlement in 2005-06.

HomeStart Finance Youth Media Awards

Supporting and encouraging young South Australians is an important objective at HomeStart, and we continued this work as naming rights sponsor of the Youth Media Awards for 2004.

These Awards recognise the outstanding achievements of South Australian media professionals for their work as, or about, youth. We're pleased to report that we will continue with this sponsorship into 2005-06.

Council on the Ageing - Every Generation Festival

The Council on the Ageing's Every Generation Festival provides an excellent opportunity to celebrate our state's seniors. In 2004, HomeStart sponsored the 'Positive Images' award, which acknowledges pro-active and realistic attempts to create more diverse and positive images of ageing within the community, as well as initiatives that offer older people the chance to participate in non-stereotypical activities.

South Australian Young Achievers Awards

The Young Achiever Awards acknowledge, encourage and most importantly promote the positive achievements of young South Australians aged between 14 and 26 years. HomeStart was delighted to support the Awards this past year, citing the important role they play in supporting the pursuit of excellence through leadership, vision, commitment and community involvement.



Creating a sustainable future is not only about profits, it's about investing in diverse communities to ensure everyone gets a fair go. Davern Lim, Loan Consultant.



Come Out Festival

Blak nite is South Australia's premier showcase of young indigenous talent, and in the past year HomeStart was there to join the celebrations by supporting this important cultural event. Blak nite was the final event for the bi-annual Come Out Festival, which involves children and young people aged 3-18 across South Australia from our regional and metropolitan communities.

Other key sponsorships

- Carers Association of South Australia
- Seniors Information Service
- UNISA Network Now
- UNISA Transition Grants.

Sustainable Financial Management

Results

This solid and challenging year of business activity has resulted in excellent outcomes from both commercial and social perspectives. An operating profit before tax of \$6.4 million (2004: \$4.4 million) was achieved against a budget of \$5.46 million and \$12.7 million was paid to government.

This year's results are attributable to sound financial, risk and asset management policies, the growth in our lending portfolio and a stronger return on the Risk Transfer Vehicle (RTV) investments.

Administration costs rose during the year, largely as a result of the 12.8% increase in staff numbers required to service the growing portfolio and to deliver new initiatives. Nevertheless administration expenses were below budget. Excellent customer service is important to us and some of our customers require additional contact to assist them into home ownership - this comes at a financial cost but delivers considerable social benefits.

In response to the record increase in lending this year, our debt funding, sourced from the South Australian Government Financing Authority (SAFA), grew to \$900 million against a borrowing limit of \$925 million. HomeStart has set minimum capital levels for prudential management and the growth in loans has resulted in a reduction of our capital adequacy ratio to 18.7% (2004: 24.3%).

Sustainable practices are vital to our organisation so that a balance can be maintained between maximising social outcomes while continuing to meet our commercial obligations. Our long-term strategy is reliant upon retaining profits to fund future lending and subsidy.

We invest in the professional development of our staff, who strive for continuous improvement and process efficiency, and champion this approach across the organisation. This year 16 members of the finance team participated in a professional financial modelling course.

Financial modelling is critical to our business operations and this course will provide considerable benefits in the ongoing improvement of our requirements for financial models of varying complexity.

A total of \$2.14 million in self-funded subsidy has been provided through the Advantage Loan this year. The Advantage Loan can be interest free (if fully repaid within five years), otherwise it has an interest rate based on the level of inflation which, as at 30 June 2005, was 2.34%.

The lending portfolio grew by 25.1% to \$1024 million this year (2004: \$819 million). Despite the introduction of some higher risk products over recent years HomeStart has maintained its prudent approach to credit quality and provisioning, continuing to utilise and develop its credit risk management systems to inform its lending decisions and to allocate appropriate benchmarks for portions of its portfolio.

“

HomeStart has achieved an excellent level of profitability this year, with an operating profit of \$6.4 million, a substantial increase on last year's \$4.4 million. Ian Wheaton, Director – Corporate Finance.

”

Financial History Table					
Financial Indicators	2001	2002	2003	2004	2005
Operating Profit (\$m)	7.3	9.5	8.6	4.4	6.4
Return on Equity	5.4%	7.0%	6.3%	3.2%	4.7%
Net Interest Margin	2.1%	2.1%	2.0%	1.9%	1.7%
Subsidy Provided (\$m)	2.1	1.9	1.7	2.0	2.1
Balance Sheet Strength					
Capital (\$m)	135.7	137.3	138.4	136.5	136.0
Provisions (\$m)	15.7	15.6	14.9	16.4	17.8
Loan Assets (\$m)	807.4	761.8	726.9	818.7	1024.3
RTV Net Assets (\$m)	17.8	18.6	21.5	23.7	33.5
Net Loan Losses (\$m)	0.8	0.2	0.1	0.02	0.02

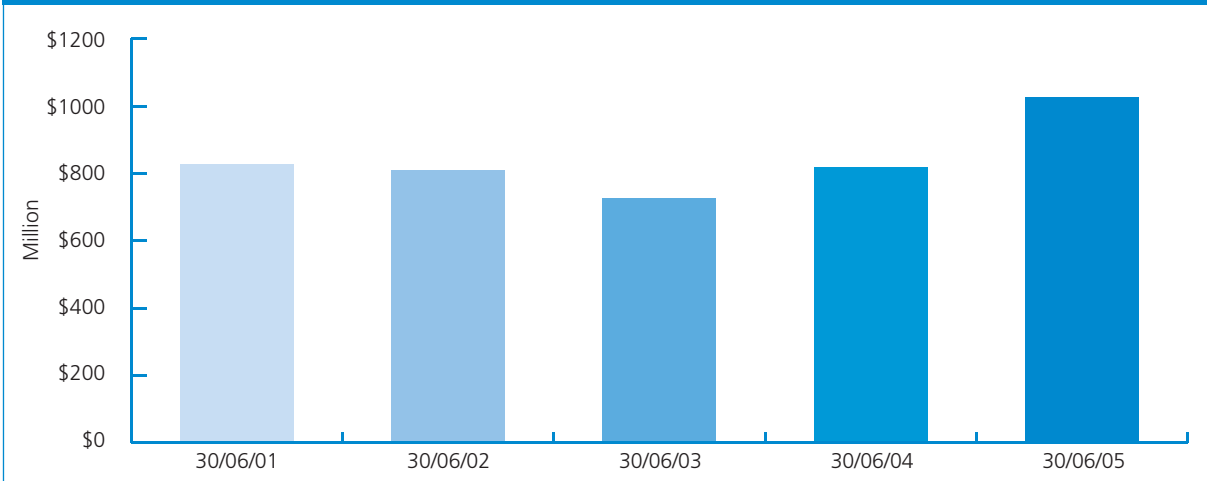
Financial contributions to the state government in \$million (\$178.6 million paid to the state government since inception)

Payment Type (\$m)	1995 ¹	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Total
Guarantee Fee	6.1	9.5	8.6	7.5	6.5	5.5	5.0	5.0	4.6	4.6	5.6	68.5
SAFA ² Admin Fee	-	0.0	0.0	0.0	0.7	0.6	0.6	0.5	0.5	0.5	0.7	4.1
Income Tax	-	1.5	6.3	4.2	3.0	2.4	3.0	2.1	2.5	2.6	1.4	29.0
Dividends	-	5.0	7.0	5.0	5.0	5.0	1.7	2.2	2.0	1.0	1.5	35.4
Capital Repatriation	-	0.0	0.0	0.0	25.0	0.0	3.3	2.8	3.0	4.0	3.5	41.6
Total Paid	6.1	16.0	21.9	16.7	40.2	13.5	13.6	12.6	12.6	12.7	12.7	178.6

¹ No payments made prior to 1995. ² South Australian Government Financing Authority

Asset and liability management

Loan Portfolio Size



HomeStart has adopted finance industry accounting standards and prudential guidelines set down by the Australian Prudential Regulation Authority (APRA) in respect of asset quality, impaired assets and doubtful debt provisioning. We maintain a conservative doubtful debt provisioning policy to cover potential exposure to loan losses and, in accordance with industry practice, allocate specific and general provisions. Actual loss levels have been very low in recent years and only \$0.02 million was written-off in the last year. This is due mainly to strong growth in residential property values but is also a result of our robust credit risk management policies.

At this point in the property cycle it is important to maintain a prudent provisioning coverage on the assumption that property value growth will not continue at recent levels.

Property price movements are monitored closely along with other relevant external data. This enables us to rapidly anticipate trends and tailor our products accordingly. Our maximum lending limit is now linked to the median house price and our Advantage Loan is reviewed regularly to ensure we are continuing to assist customers in the affordability challenge, whilst maintaining a careful focus on our own financial strength.

Funding

A global approach to treasury risk management has been adopted which takes advantage of offsetting by amalgamating the risks from all activities and managing them on a consolidated basis. The risk limits within which our Treasury Department must operate are set out in a Treasury Master Document - this governs the structure and approach to the management of our debt portfolio.

The Asset & Liability Committee oversees the management of asset price setting and policy and monitors the net interest margin between assets and liabilities. The Finance Sub-Committee is responsible for developing and implementing funding strategies as well as reviewing and monitoring interest rate exposures. This committee is a sub-committee of the Asset & Liability Committee.

Risk Transfer Vehicle (RTV)

The RTV was established in July 2000 to minimise and quarantine credit risks. It acts as a mortgage insurer to HomeStart and is a division of HomeStart managed by the RTV Committee.

Initially funded with \$20 million, the RTV is now worth \$33.5 million. It has returned 7.79% since inception and 11.48% this year. A loan provision charge is collected from loans settled as a part contribution toward write-offs. These funds are invested according to an asset allocation investment strategy developed in conjunction with Macquarie Risk Advisory Services Limited to achieve a long term target rate of return of 6.5%. The RTV Committee engages actuaries to undertake a regular review of projected future loan loss levels.

Impact of adopting Australian equivalents to International Financial Reporting Standards

Australia will be adopting Australian equivalents to International Financial Reporting Standards (AIFRS) for reporting periods commencing on or after 1 January 2005. HomeStart Finance will adopt these standards for the first time in the published financial report for the year ended 30 June 2006.

During the year, HomeStart's AIFRS Project Team has continued with its transition process from Australian Generally Accepted Accounting Principles (GAAP) to Australian equivalents to International Financial Reporting Standards (AIFRS). The transition to AIFRS is currently at the practical implementation phase and is substantially complete.

The standards will be applied from 1 July 2005. The following key areas are where accounting policies are expected to change on adoption of AIFRS:

- classification of financial instruments
- measurement of financial instruments
- derivative financial instruments
- impairment of financial assets.

The expected impacts of the adoption of AIFRS are detailed in the Notes to the Financial Statements.

Financial Management Team

The Financial Management Team's purpose is to position HomeStart in the best possible financial situation to sustain our business activities and meet our social obligations and financial performance targets. Primarily, our objectives are financial accounting, risk minimisation, performance monitoring, information management and the protection of the value of loan assets and business goodwill. Our team includes:

- treasury management
- corporate finance
- financial accounting
- real estate services
- business reporting and analysis
- loss recovery
- asset & liability management
- financial forecasting.

HomeStart uses the balanced scorecard method of performance measurement, which is based around key perspectives of the Strategic Plan. This holistic view of our business assists in identifying key areas of achievement and areas where corrective action is required.

Account Payment Performance				
Particulars	Number of Accounts Paid	Percentage of Accounts Paid (by value)	Value in \$A of Accounts Paid	Percentage of Accounts Paid (by value)
Paid by the Due Date	6765	99.47%	\$6 133 921.38	99.47%
Paid more than thirty days from Due Date	36	0.53%	\$114 072.70	0.53%

Corporate Governance

HomeStart's approach to corporate governance is guided by best practice standards, government legislation, guidelines issued by the Department of Premier and Cabinet and the Department of Treasury and Finance's Financial Management Framework. Our mission requires us to achieve social and financial outcomes, requiring a careful balance that is always at the forefront of our minds when making decisions.

Board of Management

Following a regulatory change during the 2004-05 financial year, HomeStart is now required to have a Board of seven persons, up from the previous five person requirement. This change has allowed for the appointment of two new Board members, each bringing new skills and capabilities relevant to HomeStart's business. Board members who held office during the year are detailed further on. Board members are appointed by the Governor for a term not exceeding three years.

During the year our Chairman, Sam Walters, became gravely ill and was unable to attend a number of Board and Committee meetings. Very sadly, he passed away in July 2005. Sam made an outstanding contribution to the leadership of HomeStart and will be missed by all who knew him.

Board responsibilities are focussed around corporate accountability, strategic planning, monitoring and policy development. Regular meetings are held with the Minister regarding our operations, and the Minister and Treasurer receive copies of Board papers.

The following committees of the Board operate under individual charters and assist the Board in discharging particular functions. During the year the Asset & Liability Committee and Risk Transfer Vehicle Committee meetings were amalgamated. This initiative was instigated in response to the government's review of Boards and Committees.

Audit Committee

This Committee is chaired by Jay Hogan and includes two other Board members. Other attendees, at the discretion of the Committee, attend meetings. These usually consist of members of Management and representatives of the external and internal auditors.

The Audit Committee's primary responsibilities are:

- reviewing the financial reporting processes and outputs
- monitoring the risk management plan and framework and the status of risks
- reviewing compliance with relevant laws and regulations
- monitoring the internal and external audit function.

Asset & Liability Committee

This Committee is responsible for:

- managing HomeStart's net interest margin
- monitoring HomeStart's Treasury policies to ensure their adherence to global practice and their relevance, within government, to HomeStart
- reviewing and approving changes in asset pricing policy and policy setting
- managing HomeStart's capital base.

Risk Transfer Vehicle (RTV) Committee

The RTV is a division of HomeStart established to protect the organisation from residual mortgage default risk arising from loans written on, or after, 1 July 2000. New customers pay a loan provision charge which is invested in the RTV to protect against future potential loan losses. Specific roles of the committee are to:

- manage the RTV
- review the management of credit risks, including product development
- review the RTV financial reporting processes
- monitor claims against the RTV
- assess forecast future claims and fee payments
- monitor investment policy and performance.

This committee has now been amalgamated with the Asset & Liability Committee.



HomeStart will continue to work closely with government and stakeholders to ensure we achieve the best possible outcomes for housing in this state. Sandra De Poi, Ann Darwin & Estelle Bowman, Board Members.

Strategic planning, monitoring and accountability

The Board, in conjunction with Management, establish a strategic plan that addresses our long-term goals and objectives in alignment with government strategies and policies and the Minister's directions.

A three-year rolling plan is in place which is revised annually. External environment factors, state strategic objectives and internal aims are combined to formulate the major strategies and goals into a working plan. In accordance with government policy, a risk management assessment is applied to each new initiative.

A balanced scorecard reporting approach is used monthly to monitor ongoing progress. This is underpinned by a series of reports focussing on particular areas of the business. The individual sub-committees of the Board also provide feedback to the Board on activities undertaken in discharging the duties under their respective charters.

An annual performance review of Board members is undertaken by the Chair and the Minister. The Board assesses the performance of the Chief Executive Officer regularly in relation to the management of the organisation against current strategic and business objectives.

Board member remuneration

Board remuneration is determined by the Commissioner of Public Employment. Final approval rests with the Governor after receiving advice and approval from Cabinet.





Board member benefits

No Board member has received or become entitled to receive, during or since the 2004-05 financial year, a personal benefit (other than a remuneration benefit included in Note 10 to the Financial Statements) because of a contract made with HomeStart by:

- the Board member
- a firm or government department of which the Board member is a member or
- an entity in which the Board member has a substantial financial interest.

Executive appointments

Responsibility for Executive appointments rests with the Board.

			
<p>Sam Walters, FAIM, FAICD, JP Chair Appointed 2001 Sam had a background in banking and finance and was a Business Ambassador for South Australia.</p>	<p>Jay Hogan, MBA Deputy Chair and Chair of the Audit Committee Appointed Deputy Chair 1996 An urban developer specialising in residential developments and urban regeneration, Jay is a former Chief Operations Officer with AV Jennings Australia, Chair of the South Australian Housing Trust Board and Director of various unrelated companies.</p>	<p>Estelle Bowman Appointed 13 June 2005 Estelle is a Chartered Occupational Psychologist (BPS) with extensive experience in the field of management assessment and development. She is currently Managing Partner of CEConsult specialising in change management and executive development.</p>	<p>Ann Darwin, PhD Appointed 26 August 2004 Ann is a business consultant and company director, with over twenty years experience as a manager and leader of organisational change. She is currently Managing Director of Ann Darwin & Associates.</p>

Board attendance

Member	Board		Audit Committee		Asset & Liability Committee		Risk Transfer Vehicle Committee	
	Eligible to attend	Meetings attended	Eligible to attend	Meetings attended	Eligible to attend	Meetings attended	Eligible to attend	Meetings attended
S Walters	11	9	-	-	11	8	6	3
E Bowman	-	-	-	-	-	-	-	-
A Darwin	9	9	4	4	-	-	-	-
S De Poi	-	-	-	-	-	-	-	-
J Hogan	11	11	6	6	-	-	-	-
C Long	11	11	-	-	11	11	-	-
S Mann	11	11	6	5	-	-	6	6

Risk management

HomeStart has adopted an organisation-wide approach to managing risks to ensure that they are identified and managed at all levels of our operations. Our Risk Management Policy reflects the South Australian Government Risk Management Policy Statement, relevant Treasurer's instructions and best practice.

Whilst risk management remains the primary responsibility of the Board, it has assigned specific roles and responsibilities in relation to risk management to its sub-committees. The Audit Committee monitors our annual Risk Management Plan and regularly reviews the areas of highest risk.

Risk management is an integral part of our everyday work and is underpinned by a framework that involves all staff and includes:

- identification, assessment (using Australian Standard 4360) and recording of risks through our on-line Risk Management System (the RMS)
- continuous monitoring and re-assessment of risks and internal controls, prompted by the RMS's interactive email capacity and by regular discussion
- comprehensive reporting
- organisation-wide feedback on emerging and existing risks.

Strategic risk

Our strategic and business planning process includes discussion and assessment of risks and opportunities to enable us to prioritise our goals and maximise outcomes. Our planning takes into consideration our external environment, Ministerial and government objectives and internal capabilities.

Operational risk

The RMS facilitates a comprehensive assessment, communication and monitoring framework and is available to all staff. Any incidents that occur are recorded in the RMS, against the relevant risk, and are dealt with promptly to mitigate any potential reoccurrence. This assists future risk assessment and encourages continuous improvement and accountability.



Sandra De Poi, B Soc Admin
Appointed 13 June 2005
 Sandra is Managing Director of De Poi Consultancy Services Pty Ltd, specialising in Rehabilitation, Workers Compensation, Human Resource Management, Business Development and Growth Management. She is also the Chair of the Adelaide Cemeteries Authority Board and a member of the WorkCover Board.



Claude Long
Non-Executive Board member and Chair of the Asset & Liability Committee
Appointed 2002
 Claude is a company director and business consultant with over 40 years experience in the banking industry. Claude was formerly a General Manager of the Commonwealth Bank and has served on a number of bank policy-making committees.



Stephen Mann, FCA, FAICD
Non-Executive Board member and Chair of the Risk Transfer Vehicle Committee
Appointed 1996
 Stephen is a chartered accountant with BDO Nelson Parkhill, is the Chair of Community Benefit SA and a member of the Institute of Chartered Accountants. He is also a director of various trading, finance and investment companies.

Management regularly review their area's risk profiles to ensure that a comprehensive and dynamic risk management process is in place which assists us in our planning and everyday activities.

Our Business Continuity and Disaster Recovery Plan was enhanced this year to incorporate a step-by-step information technology recovery process.

Asset & liability risks

A comprehensive Treasury Master Document sets out the policies which govern HomeStart's borrowing to fund its new lending. These policies are monitored by the Asset & Liability Committee at its monthly meetings, by the Finance Sub-Committee at its weekly meetings and daily by the Director, Corporate Finance and the Corporate Treasurer. Our monitoring and forecasting is facilitated by sophisticated risk management software.

Credit Risk

Credit risk is inherent in our core function - lending. Although our mission has social and commercial objectives, this does not compromise our principles, and so our lending policies are founded on sound credit risk management and behavioural intelligence which is incorporated into each stage of a customer's loan application and management.

Regular and comprehensive reporting and monitoring take place to ensure that our policies result in sound lending decisions and arrears management practices. These are underpinned by credit risk systems that have been developed using a combination of theory and experience drawn from the behaviour of our customer base.

We are proud to say that this year our arrears levels have dropped to all-time lows and our write-off levels compare very favourably with other lenders.

Internal control and assurance

We aim to ensure that effective and robust internal controls are a key feature of our operations and that this is clearly understood by our staff. Internal controls are regularly reviewed to ensure their adequacy and to seek areas of improvement. Whilst fraud is a risk that we are exposed to in various areas of the business, no inappropriate activity has been identified. Strategies to prevent fraud are in place at all levels of our operations including:

- delegations of authority
- dual controls in appropriate areas
- internal policies, procedures, monitoring and reconciliation
- a strong internal culture and organisational values.

Management are required to confirm to the Board that effective risk management, internal control and compliance practices have operated throughout the year. Last year this assurance was extended to our Executive Team members.

Internal and external audit

An external audit is undertaken by the Auditor-General of South Australia and an Independent Audit report is provided to the Board.

In 2004-05 a selective tender process was undertaken. As a result of this, with effect from 1 July 2004, our internal audit functions were outsourced to:

- PricewaterhouseCoopers - operational audit based on a three-year rolling audit plan
- Ernst & Young - new lending and arrears management monthly audits of loan manager performance.

Statutory Information

Occupational health, safety and injury management

HomeStart's continuous development of OHS&W related strategies and programs aims to protect the health and safety of our employees by minimising the incidence, severity and cost of workforce injuries and diseases. Expenditure for all OHS&W related activities for the year amounted to approximately \$5200.

The HomeStart OHS&W Committee met six times during the year to monitor the performance of, and promote, HomeStart's overall OHS&IM program. The Committee consists of one elected health and safety representative, one management representative and six employee representatives.

Statistics of OHS&W performance are reported to stakeholders monthly to ensure a broad awareness of OHS&W issues and achievements. Data measured includes reported accidents, injuries and near misses, the number of safety audits conducted and the number of identified, corrected and outstanding hazards. Consultation takes place between the Committee, employees and Management and all information gathered is used to take corrective and preventative action where necessary.

Policy, injury management strategies review and improvement program

Quarterly worksite hazard management inspections were conducted and all risks identified were either eliminated immediately or recorded into our online OHS&W hazard management system. All hazards were assessed and effectively controlled in a timely manner to ensure the minimisation of risk of workplace accidents, injuries or incidents.

Progress against WorkCover performance standards

A gap analysis was undertaken to identify any OHS&W knowledge gaps and to ensure continuous improvement toward the progress of meeting the requirements of the WorkCover Performance Standards for Self Insurers. The requirements of a whole of government Safety in the Public Sector Plan have been implemented and will continue to be monitored for improvement opportunities.

Training

Due to the trends of our most frequent cause of injury, ergonomics was identified as a training requirement during the conduct of our training needs analysis. A compulsory ergonomics training program for all staff is currently being carried out by our OH&S Co-ordinator who holds a Certificate IV in Assessment and Workplace Training. The training includes a competency based assessment to ensure that our staff have the required knowledge to set up their workstation so correct ergonomic practices are met.

An online induction training system for Managers is being developed to incorporate information relating specifically to them to ensure awareness and understanding of their responsibilities relating to OHS&W.

Six monthly staff development reviews include safety management performance and also include the option for staff to request OHS&W related training specific to their requirements.

Training expenditure for the year amounted to \$1895 and included training programs for managing aggressive customers, ergonomics, the responsible officer, newly appointed committee members, senior first aid certificate and also refresher training in our security processes and duress alarms.

“

HomeStart is a fantastic place to work; 96% of employees rate our safety management practices highly.

Michelle Richardson, OH&S and Payroll Co-ordinator.

”

Control strategies

Identified OHS&W risks continue to be recorded in our online risk management system for continuous monitoring by the organisation and to ensure risk mitigation strategies are implemented. Having a dedicated OHS&W Co-ordinator facilitates a safe work culture and a continuous focus on health and safety.

Freedom of Information Act 1991

Requests under the *Freedom of Information Act 1991* for access to information in the possession of HomeStart Finance should be directed in writing to: Freedom of Information Officer, HomeStart Finance, Level 5, 117 King William Street, Adelaide, South Australia 5000.

Enquiries may be directed to the Freedom of Information Officer by telephoning HomeStart Finance on 08 8210 0427 between 9am and 5pm Monday to Friday.

Freedom of Information Act 1991 Information Statement

Description of HomeStart's structure and functions

Information concerning the structure and functions of HomeStart Finance is located in this annual report and is deemed to be consistent with the reporting requirements of the *Freedom of Information Act 1991*.

Effect of HomeStart's functions on members of the public

Information concerning the affect of HomeStart Finance's functions on members of the public is contained in this annual report and is deemed to be consistent with the reporting requirements of the *Freedom of Information Act 1991*.

Arrangements for public participation in policy formation

HomeStart involves the public in policy formation in an informal manner. We conduct ad hoc customer surveys regarding service and product development issues and these views are considered in the development of policy.

Disability action plans

HomeStart's services incorporate the recommendations of Promoting Independence - Disability Action Plans for South Australia and Board members and staff are fully aware of their obligations in this respect. Our culture is one of social inclusion and we take every opportunity to make our services accessible to all.

HomeStart maintains strategic relations with a number of disability service providers from whom it has gained knowledge in disability issues and with whom it consults in the event that expertise is required.

Contractual arrangements

HomeStart has not entered into any contracts with a value greater than \$4 million.

Overseas travel

One staff member made an overseas trip for business purposes – see HomeStart's People.

Occupational Health, Safety & Welfare and Injury Management statistics				
1	OHS&W Legislative Requirements	2004-05	2003-04	2002-03
	Number of notifiable occurrences pursuant to OHS&W Regulations Division 6.6	Nil	Nil	Nil
	Number of immediately notifiable work injuries pursuant to OHS&W Regulations Division 6.6	Nil	Nil	Nil
	Number of notices served pursuant to OHS&W Act sections 35, 39 and 40	Nil	Nil	Nil
2	Injury Management Legislative Requirements			
	Total number of employees who participated in a rehabilitation program	Nil	Nil	Nil
	Total number of employees rehabilitated and reassigned to alternative duties	Nil	Nil	Nil
	Total number of employees rehabilitated back to their original work	Nil	Nil	Nil
3	WorkCover Action Limits			
	Number of open claims as at 30th June	1	2	1
	Percentage of workers compensation expenditure over gross annual remuneration	.05%	.04%	.04%
4	Number of Claims			
	Number of new workers compensation claims in the financial year	Nil	1	1
	Number of fatalities, lost time injuries (F)	Nil	Nil	Nil
	and medical treatment only injuries (LTI)	Nil	Nil	Nil
	(MTO)	Nil	1	1
	Total number of whole working days lost	Nil	Nil	Nil
5	Cost of Workers Compensation			
	Cost of new claims for financial year	Nil	\$747	\$1388
	Cost of all claims excluding lump sum payments	\$1501	\$1013	\$1388
	Amount paid for lump sum payments s42	Nil	Nil	Nil
	s43	Nil	Nil	Nil
	s44	Nil	Nil	Nil
	Total amount recovered from external sources (under s54 of the WRC Act)	Nil	Nil	Nil
	Budget allocation for workers compensation	\$3000	\$3000	Nil
6	Trends			
	Injury frequency rate for new lost-time injury/disease for each million hours worked	Nil	Nil	Nil
	Most frequent cause (mechanism) of injury	Neck/ Shoulder Strain	Occupation Overuse	Neck/ Shoulder Strain
	Most expensive cause (mechanism) of injury	Neck / Shoulder Strain	Occupation Overuse	Neck/ Shoulder Strain
7	Meeting the Organisation's Strategic Targets			
	Targets and results from the organisation's action plan are provided	Yes	Yes	Yes

Consultancy Expenditure 2004-05

Consultant	Below \$10,000 Purpose	Cost
7		\$35,349
Total Consultancies < \$10,000		\$35,349
Consultant	\$10,000 - \$50,000 Purpose	Cost
Brett & Watson Pty Ltd	Actuarial Services & Reviews	
Chimo Pty Ltd	Marketing & Customer Management Strategy Reviews	
Ernst & Young	Australian International Financial Reporting Standards Advisory	
	Financial Modelling & Taxation Advice & Services	
Interaction	Marketing & Promotional Development	
McDonnell Warhurst Pty Ltd	Development of Affordable Housing & Homelessness Strategies	
PricewaterhouseCoopers	Professional Taxation & Accounting Services	
Total Consultancies \$10,000 - \$50,000		\$142,420
Consultant	Above \$50,000 Purpose	Cost
Executive Advisory	Strategic & Political Advisory Service	
Total Consultancies \$50,001 +		\$73,690
		\$251,460

Financial Statements

HomeStart Finance Board Members' Statement

For the Year Ended 30 June 2005

In the opinion of the members of the Board of HomeStart Finance:

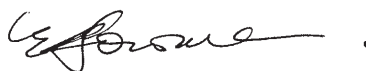
The financial report set out on pages 40 to 69:

- gives a true and fair view of the financial position of HomeStart Finance as at 30 June 2005 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date; and
- provides reasonable grounds to believe that HomeStart Finance will be able to pay its debts as and when they become due and payable.

This statement is made in accordance with a resolution of the Board of HomeStart Finance and is signed for and on behalf of the members of the Board by:



Sandra De Poi
Board Member
16 September 2005
Adelaide



Estelle Bowman
Board Member
16 September 2005
Adelaide

HomeStart Finance Certification of the Financial Report

For the Year Ended 30 June 2005

We certify that:

- the attached General Purpose Financial Report for HomeStart Finance
 - is in accordance with the accounts and records of HomeStart Finance and gives an accurate indication of its financial transactions for the year ended 30 June 2005;
 - presents fairly, in accordance with the Treasurer's Instructions promulgated under the provisions of the Public Finance and Audit Act 1987, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of HomeStart Finance as at 30 June 2005, its financial performance and its cash flows for the year then ended; and
- internal controls over financial reporting have been effective throughout the reporting period and there are reasonable grounds to believe HomeStart Finance will be able to pay its debts as and when they become due and payable.



John Comley
Acting Chief Executive Officer
9 September 2005



Marilyn Hansford
Acting Chief Financial Officer
9 September 2005

Financial Statements

HomeStart Finance Statement of Financial Performance for the year ended 30 June 2005

	Note No.	2005 \$'000	2004 \$'000
Interest revenue	5	65,418	51,332
Borrowing costs	5	43,829	32,358
Net interest revenue	5	21,589	18,974
Other revenue	6	8,822	5,240
Bad and doubtful debts (expense)/credit	7	(1,454)	(1,579)
Government guarantee fee	8	(6,155)	(4,599)
Loan manager fees		(5,530)	(3,707)
Employee expenses	9	(5,928)	(4,985)
Depreciation and amortisation	12	(409)	(300)
Other expenses	13	(4,506)	(4,607)
Profit from ordinary activities before income tax equivalents expense		6,429	4,437
Income tax equivalent expense	2.4	(1,929)	(1,331)
Profit from ordinary activities after income tax equivalents expense	25	4,500	3,106
Total changes in equity excluding those resulting from transactions with State Government as owner		4,500	3,106

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

HomeStart will continue to help our customers bridge the affordability gap, now and into the future. Cameron Serich, Lending Analyst.

HomeStart Finance Statement of Financial Position as at 30 June 2005

	Note No.	2005 \$'000	2004 \$'000
Assets			
Cash	29	1,290	1,869
Investments	15	32,930	27,335
Housing loans and advances	16	1,006,194	802,042
Office and computer equipment	17	857	640
Other assets	18	384	670
Total assets		1,041,655	832,556
Liabilities			
Payables	19	3,648	3,450
Short term interest bearing liabilities	20	154,754	80,700
Long term interest bearing liabilities	20	745,000	610,275
Employee benefits	21	887	723
Tax liability	23	1,108	620
Other liabilities	24	268	298
Total liabilities		905,665	696,066
Net assets		135,990	136,490
Equity			
Accumulated surplus	25	135,990	136,490
Total equity		135,990	136,490
Commitments for expenditure	27		
Contingent liabilities	28		

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

HomeStart Finance Statement of Cash Flows as at 30 June 2005

	Note No.	2005 \$'000	2004 \$'000
Cash flows from operating activities			
Cash inflows			
Interest received on:			
Cash		90	17
Investments		714	688
Housing loans and advances		65,259	50,758
Fees and commissions received		1,041	840
Bad debts recovered		153	263
Other		12	-
Total inflows from operating activities		67,269	52,566
Cash outflows			
Payments to employees		(5,737)	(4,733)
Payments to suppliers		(4,624)	(4,492)
Payments to loan managers		(5,494)	(3,628)
Borrowing costs paid		(43,781)	(32,696)
Government guarantee fee paid		(5,614)	(4,599)
Income tax equivalents paid		(1,441)	(2,581)
Repayment of grant		(18)	(482)
Total outflows from operating activities		(66,709)	(53,211)
Net cash inflows/(outflows) from operating activities	29.2	560	(645)

HomeStart Finance Statement of Cash Flows (cont) as at 30 June 2005

	Note No.	2005 \$'000	2004 \$'000
Cash flows from investing activities			
Cash inflows			
Proceeds from sale of office and computer equipment		11	3
Customer loans repaid		184,707	209,158
Total inflows from investing activities		184,718	209,161
Cash outflows			
Payments for office and computer equipment		(634)	(375)
Payments for investments		(3,041)	(2,879)
Customer loans settled		(385,961)	(298,935)
Total outflows from investing activities		(389,636)	(302,189)
Net cash outflows from investing activities		(204,918)	(93,028)
Cash flows from financing activities			
Cash inflows			
Proceeds from borrowings		1,182,800	1,045,500
Total inflows from financing activities		1,182,800	1,045,500
Cash outflows			
Dividends paid		(1,485)	(1,025)
Repayment of borrowings		(974,021)	(948,216)
Repayment of capital		(3,515)	(3,975)
Other		-	8
Total outflows from financing activities		(979,021)	(953,208)
Net cash inflows from financing activities		203,779	92,292
Net decrease in cash held		(579)	(1,381)
Cash at the beginning of the financial year		1,869	3,250
Cash at the end of the financial year	29.1	1,290	1,869

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

Notes to the Financial Statements

HomeStart Finance Notes to the Financial Statements

For the Year Ended 30 June 2005

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Note 1. Objectives of HomeStart Finance

The role of HomeStart Finance is to operate in a commercial manner to:

- * Develop, market and manage home finance and housing initiatives
- * Increase home ownership opportunities as a choice for lower-income households in South Australia.

HomeStart Loan

HomeStart provides home loans to lower income households and other needs groups with income linked and CPI indexed repayments. The HomeStart Loan is the principal loan product. The outstanding value of HomeStart Loans at 30 June 2005 was \$988.1 million (\$782.4 million, 2004).

Subsidies

HomeStart provides subsidised loans of up to \$26,000 to lower income earners. The Advantage Loan has an interest rebate period of five years, after which the interest is indexed to the CPI. The outstanding value of Advantage Loans at 30 June 2005 was \$36.3 million (\$35.9 million, 2004).

In providing these loans HomeStart incurred a direct cost of subsidy estimated to be \$2.1 million on the funds lent (\$2.0 million, 2004). HomeStart does not receive any funding with respect to this subsidy.

HomeStart also has loans at concessional interest rates through the City Living Access Loan, H.O.M.E and Rental Purchase schemes.

Funding

HomeStart funds its mortgage activities from capital and by borrowing from the South Australian Government Financing Authority (SAFA).

Note 2. Summary of significant accounting policies

2.1 Basis of accounting

The financial report is a general purpose financial report. The statements have been prepared in accordance with:

- Treasurer's Instructions and Accounting Policy Statements (APS) promulgated under the provisions of the Public Finance and Audit Act 1987*
- Applicable Australian Accounting Standards
- Other mandatory professional reporting requirements in Australia.

HomeStart's Statement of Financial Performance and Statement of Financial Position have been prepared on an accrual basis and are in accordance with the historical cost convention, except for certain assets that were valued in accordance with the valuation policy applicable.

2.2 Comparative figures

Comparative figures have been adjusted to conform to changes in presentation in these financial statements where required.

2.3 Rounding

All amounts in the financial statements have been rounded to the nearest thousand dollars (\$'000).

2.4 Taxation

In accordance with Treasurer's Instructions issued under the Public Finance and Audit Act 1987, HomeStart is required to pay to the State Government an income tax equivalent. The income tax liability is based on the Treasurer's accounting profit method, which requires that the corporate income tax rate (30%; 30%, 2004) be applied to the net profit after extraordinary items.

HomeStart is liable for payroll tax, fringe benefits tax and goods and services tax.

In accordance with the requirements of UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)', revenues, expenses and assets are recognised net of the amount of GST except that:

- The amount of GST incurred by HomeStart as a purchaser, that is not recoverable from the Australian Taxation Office (ATO), is recognised as part of the cost of acquisition of an asset or as part of an item of expense
- Receivables and payables are stated with the amount of GST included.

HomeStart, being a provider of financial services, is classified as an input taxed entity for GST purposes and consequently has to absorb GST costs passed on by suppliers. Reduced input tax credits can only be claimed on a very limited number of input costs.

The net amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

2.5 Revenue and expenses

Revenue and expenses are recognised in HomeStart's Statement of Financial Performance when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

Revenue and expenses have been classified according to their nature in accordance with Accounting Policy Statement 13 Form and Content of General Purpose Financial Reports and have not been offset unless required or permitted by another accounting standard.

Interest income is recognised as it accrues, except for impaired loans where interest income is recognised as it is recovered.

HomeStart ceases accruing interest income on loans when it is considered that HomeStart would be unable to recover that interest income from either the customer or from the sale of the security.

Interest on these loans is only taken into account when realised or when loans are returned to accrual status.

Loans are assessed as non-accrual where they are contractually more than 90 days overdue with security insufficient to cover principal and arrears of interest, or where there is doubt as to the full recovery of principal and interest.

A non-accrual item may be restored to accrual basis only if all arrears have been eliminated by payments from the customer, and HomeStart judges that the customer is capable of servicing their future obligations under the facility, or when it otherwise becomes well secured.

Advantage Loan interest income is rebated if the loan is paid off within five years, otherwise interest income accumulated from inception is recognised as earned after five years and then as it accrues.

Revenue from disposal of non-current assets is recognised when control of the asset has passed to the buyer.

Other non-interest income is recognised when earned or recovered.

2.6 Assets and liabilities

HomeStart is a financial institution as defined by Accounting Standard AASB 1032 Specific Disclosures by Financial Institutions. Accordingly, assets and liabilities are classified in the Statement of Financial Position by their nature and in an order that reflects their relative liquidity. Current and non-current classes are not required to be presented separately.

2.7 Cash

For the purposes of the Statement of Cash Flows, cash includes cash at bank and deposits at call that are readily converted to cash and are used in the cash management function on a day-to-day basis.

Cash also includes highly liquid investments with short periods to maturity that are readily convertible to cash on hand and are subject to an insignificant risk of changes in value. Cash is measured at its nominal value.

2.8 Investments

Investments in managed funds, regardless of their composition, are reflected in the financial statements at their market value at each balance date, which approximates their fair value. The gains or losses from changes in market value during the year, whether realised or unrealised, are included in the Statement of Financial Performance. Investments in financial instruments such as bank accepted bills and cash are recognised in the financial statements at the lower of cost (adjusted for premium or discount) or recoverable amount. Interest income on these investments is recognised as it accrues.

2.9 Housing loans and advances

Housing loans and advances are reflected in the financial statements at their face value less assessed provisions for impairment. Impairment of a loan is recognised when there is reasonable doubt that not all the principal and interest can be collected in accordance with the terms of the loan agreement. Impairment is assessed by specific identification in relation to individual loans and by estimation of expected losses in relation to portfolios where specific identification is impracticable.

Specific provision

The specific provision is an estimate of the potential loss exposure on identified problem loans.

The provision is determined by assessing potential losses on loans where:

- Arrears are 90 days or over, or exceed \$3,000; or
- Repayment reductions have been negotiated; or
- In other cases where HomeStart is taking action to manage the loan; or
- Action is being taken to recover debt through possession of security.

The provision is calculated as the excess of the loan balance over the expected realisable amount on the sale of the security, after allowing for selling and other costs.

General provision

This provision is created to provide for presently unidentifiable losses that may arise in the loan portfolio and for which no specific provision exists.

The general provision for HomeStart Loans is determined by assessing potential losses on the entire loan portfolio. The assessment takes account of:

- The profile of past loan losses from the portfolio
- Changes to risk levels of the portfolio - for example due to changes in new business
- The outlook for interest rates, the housing market and other key economic trends.

HomeStart uses internal projections and external actuary assessment of loan loss history to determine its general provision requirement.

A prudential margin has been included to provide sufficient confidence that the provision is adequate, reflecting the inherent uncertainty in assumptions made in relation to loss forecasts and loan portfolio risks. The prudential margin for 2005 averages 27% (50% in 2004) following review during the year. The prudential margin was reduced to 20% for standard lending with a 50% allowance maintained for loans with higher risk characteristics.

Bad and doubtful debts

All bad and doubtful debts are written off in the period in which they are identified. The write off of debts over \$20,000 requires the approval of the Board. If a provision for impairment has been recognised in relation to a loan, write-offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as expenses in the Statement of Financial Performance.

2.10 Non-current asset acquisition and recognition

Assets are initially recorded at cost or at the value of any liabilities assumed, plus any incidental cost involved with the acquisition. Where assets are acquired at no value, or minimal value, they are recorded at their fair value in the Statement of Financial Position.

HomeStart capitalises all non-current physical assets with a value of \$500 or greater in accordance with APS 2 Asset Recognition¹.

2.11 Revaluation of non-current assets

In accordance with APS 3 Valuation of Non-Current Assets:

- all non-current physical assets are valued at written down current cost (a proxy for both the fair value and deprival method of valuation).
- revaluation of non-current assets or group of assets is only performed when its fair value at the time of acquisition is greater than \$1 million and estimated useful life is greater than 3 years.

If at any time management considers that the carrying amount of an asset class materially differs from its fair value, then the asset class will be revalued.

2.12 Depreciation and amortisation of non-current assets

All non-current assets, having a limited useful life, are systematically depreciated/amortised over their useful lives in a manner that reflects the consumption of their service potential. Amortisation is used in relation to intangible assets, while depreciation is applied to physical assets such as other office and computer equipment.

The useful lives of all major assets held by HomeStart are reassessed on an annual basis.

The value of leasehold improvements is amortised over the estimated useful life of each improvement, or the unexpired period of the relevant lease, whichever is shorter.

Depreciation/amortisation for non-current assets is determined as follows:

Class of asset	Depreciation method	Useful life (Years)
Leasehold improvements	Straight line	5
Other office and computer equipment	Straight line	3-5

2.13 Intangible assets

The acquisition or internal development of software is capitalised when the expenditure meets the definition and recognition criteria of an asset and when the amount of expenditure is greater than or equal to \$500, in accordance with Accounting Policy Statement 2 Asset Recognition paragraph 24.

Capitalised software is amortised over the useful life of the asset, with a maximum time limit for amortisation of five years.

Costs in relation to web site development are charged as expenses in the period in which they are incurred, unless they relate to the acquisition of an asset, in which case they are capitalised and amortised over the period of expected benefit. Generally, costs in relation to feasibility studies during the planning phase of a web site, and ongoing costs of maintenance during the operating phase are considered to be expenses. Costs involved in building or enhancing a web site to the extent they represent probable future economic benefits controlled by HomeStart that can be reliably measured, are capitalised as an asset and amortised over the period of the expected benefits.

2.14 Payables

Payables include creditors, accrued expenses, employment on-costs, interest, guarantee fee and loan manager fees.

Creditors represent the amounts owing for goods and services received prior to the end of the reporting period that are unpaid at the end of the reporting period. Creditors include all unpaid invoices received relating to the normal operations of HomeStart.

Accrued expenses represent goods and services provided by other parties during the period that are unpaid at the end of the reporting period and where an invoice has not been received.

All amounts are measured at their nominal amount and are normally settled within 30 days in accordance with Treasurer's Instruction 8 Expenditure for Supply Operations and Other Goods and Services after HomeStart Finance receives an invoice.

Employment on-costs include superannuation contributions and payroll tax with respect to outstanding liabilities for salaries and wages, long service leave and annual leave.

HomeStart makes contributions to various superannuation schemes operated by the State Government and private sector. These contributions are treated as an expense when they occur.

2.15 Interest bearing liabilities

Interest bearing liabilities are reflected in the financial statements at their face value. Interest expense is accrued over the period it becomes due at the contracted rate and included in Payables.

2.16 Employee benefits

These benefits accrue for employees as a result of services provided up to the reporting date that remain unpaid. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees is estimated to be less than the annual entitlement of sick leave.

Liability for salaries and wages are measured as the amount unpaid at the reporting date at remuneration rates current at reporting date. The liability for annual leave reflects the value of total annual leave entitlements of all employees as at 30 June 2005 and is measured at the nominal amount.

The liability for long service leave is recognised and measured at the actuarial assessment by the Department of Treasury and Finance based on a significant sample of employees throughout the South Australian public sector. This calculation is consistent with the HomeStart experience of employee retention and leave taken.

2.17 Derivative financial instruments

HomeStart is exposed to changes in interest rates and uses forward rate agreements, interest rate swap agreements and futures contracts to hedge this risk.

Derivative financial instruments are not held for speculative purposes.

The net amount receivable or payable under interest rate swap agreements, and realised losses and gains on forward rate agreements and futures contracts, are recognised on an accrual basis in the Statement of Financial Performance as an adjustment to interest expense during the period.

2.18 Insurance

HomeStart Finance has arranged, through the South Australian Government Captive Insurance Corporation (SAICORP), to insure all major risks of HomeStart. The excess payable under this arrangement varies depending on each class of insurance held.

2.19 Operating leases

In respect of operating leases, the lessor effectively retains substantially the entire risks and benefits incidental to ownership of the leased items. Operating lease payments are charged to the Statement of Financial Performance on a basis which is representative of the pattern of benefits derived from the leased assets.

Lease incentives received by HomeStart in respect of operating leases have been recorded as a liability since the amount received as an incentive results in higher operating lease payments. The lease payments are apportioned between interest expense, repayment of the borrowing (the incentive) and lease rental expense.

Note 3. Changes in accounting policies

Government / non-government disclosures

In accordance with APS 13 Form and Content of General Purpose Financial Reports, HomeStart has included details of revenue, expenditure, assets and liabilities according to whether the transactions are with entities internal or external to the SA Government in a note to the accounts.

Note 4. Segment reporting

HomeStart operates in one geographical segment (South Australia) and its principal activity is the provision of home finance to lower income groups.

NOTE 5. Net interest revenue

	2005 \$'000	2004 \$'000
Interest received/receivable from entities external to the SA Government		
Housing loans and advances	65,345	51,245
Deposits with banks	73	87
Total interest revenue – non SA Government entities	65,418	51,332
Interest paid/payable to entities within the SA Government		
Borrowings from SAFA	43,829	32,358
Total borrowing costs – SA Government entities	43,829	32,358
Net interest revenue	21,589	18,974

NOTE 6. Other revenue		
	2005	2004
	\$'000	\$'000
Other revenue received/receivable from entities external to the SA Government		
Fees and charges	5,366	2,992
Bad debts recovered	153	263
Unrealised change in market value of investments	590	576
Managed funds distribution	1,518	650
Interest income from investments	714	654
Other	35	8
Total other revenues received/receivable from entities external to the SA Government	8,376	5,143
Other revenue received/receivable from entities within the SA Government		
Realised change in market value of investments – SA Government	446	97
Total other revenue received/receivable from entities within the SA Government	446	97
Total other revenue	8,822	5,240

NOTE 7. Bad and doubtful debts expense		
	2005	2004
	\$'000	\$'000
Direct write-offs	36	22
Doubtful debts provisions expense	1,418	1,557
Total bad and doubtful debts expense	1,454	1,579

NOTE 8. Government guarantee fee		
	2005	2004
	\$'000	\$'000
Government guarantee fee paid or payable to entity within the SA Government	6,155	4,599
Total Government guarantee fee paid to entity within the SA Government	6,155	4,599

HomeStart paid a guarantee fee of 0.75% of outstanding borrowings to the Department of Treasury and Finance in 2004-2005 (0.75%, 2003-2004).

NOTE 9. Employee expenses, remuneration and number of employees		
	2005	2004
	\$'000	\$'000
Salaries and wages	5,023	4,169
Charges to the provision for long service leave	86	57
Charges to the provision for annual leave	61	119
Employment on-costs – superannuation	470	394
Employment on-costs – other	288	246
Total employee expenses	5,928	4,985
Remuneration of employees		
	2005	2004
	No.	No.
The number of employees whose remuneration received or receivable falls within the following bands:		
\$100,000 to \$109,999	2	2
\$130,000 to \$139,999	-	2
\$140,000 to \$149,999	1	-
\$150,000 to \$159,999	1	-
\$170,000 to \$179,999	-	1
\$180,000 to \$189,999	1	-
\$210,000 to \$219,000	-	1
\$220,000 to \$229,999	1	-
Total number of employees	6	6

The table includes all employees who received remuneration of \$100,000 or more during the year. Remuneration of employees reflects all costs of employment including salaries and wages, superannuation contributions, fringe benefits tax and any other salary sacrifice benefits. The total remuneration received by these employees for the year was \$0.92 million (\$0.86 million, 2003-04).

Number of employees at the end of the reporting period: HomeStart employed 88 (78, 2003-2004) people at the end of the reporting period.

Note 10. Related party disclosure and Board member remuneration

All transactions between HomeStart and related parties are on arms length terms and conditions.

During the financial year HomeStart undertook transactions with the following related parties. The nature and amounts of these transactions have been disclosed throughout the financial report.

- Department for Families and Communities
- Department of Treasury and Finance
- Board members
- South Australian Government Financing Authority

The names of Board members who held office during the financial year were:

- Samuel Walters
- Jay Hogan
- Claude Long
- Stephen Mann
- Ann Darwin
- Estelle Bowman
- Sandra De Poi

No Board member has entered into a material contract with HomeStart during the financial year.

Board members' remuneration

The number of HomeStart Board members whose remuneration received or receivable falls within the following bands:

	2005 No.	2004 No.
\$10,000 - \$19,999	1	1
\$20,000 - \$29,999	3	3
\$30,000 - \$39,999	1	1
Total number of Board members	5	5

	2005 \$'000	2004 \$'000
Total income paid or payable or otherwise made available to all Board members of HomeStart	130	127

Note 11. Economic dependency

HomeStart has an economic dependency on the following suppliers of services:

Financing services

South Australian Government Financing Authority (SAFA) is the sole provider of funds to HomeStart.

Loan management services

HomeStart contracts a significant proportion of its loan management services to BankSA, The Home Loan Centre, HomeLoans Plus and Bernie Lewis Home Loans.

NOTE 12. Depreciation and amortisation		
Depreciation	2005	2004
	\$'000	\$'000
Office and computer equipment	342	271
Total depreciation	342	271
Amortisation		
Leasehold improvements	67	29
Total amortisation	67	29
Total depreciation and amortisation	409	300

NOTE 13. Other expenses		
Other expenses paid to entities within the SA Government	2005	2004
	\$'000	\$'000
External auditor's remuneration	92	83
Insurance	29	14
Total other expenses paid to entities within the SA Government	121	97
Other expenses paid to entities external to the SA Government		
Office accommodation (minimum lease payments)	363	272
Marketing, product development and advertising	1,456	1,421
Internal audit fees	154	219
Loan administration	174	239
Information technology – loan management systems	68	119
Information technology – support and maintenance	285	300
Consultant's fees	251	259
Board fees	122	117
Human resources and staff development	319	281
Other	1,193	1,283
Total other expenses paid to entities external to the SA Government	4,385	4,510
Total other expenses	4,506	4,607

The number and dollar amount of consultancies paid/payable that fell within the following bands:	2005		2004	
	No	\$'000	No	\$'000
Below \$10,000	7	35	8	20
Between \$10,000 and \$50,000	6	142	6	103
Above \$50,000	1	74	2	136
Total paid/payable to the consultants engaged	14	251	16	259

NOTE 14. Auditor's remuneration		
	2005	2004
	\$'000	\$'000
Audit fees paid/payable to the Auditor-General's Department	92	83
Total audit fees – SA Government entities	92	83

Other services

No other services were provided by the Auditor-General's Department.

NOTE 15. Investments		
	2005	2004
	\$'000	\$'000
15.1 Investments		
Investment with entity within the SA Government		
SAFA composite bond index investment (at fair value)	6,431	5,236
Total investment with entity within the SA Government	6,431	5,236
Investments with entities external to the SA Government		
Bank bills (at cost)	12,955	13,440
Listed equities and properties funds (at fair value)	13,544	8,659
Total investments with entities external to the SA Government	26,499	22,099
Total investments	32,930	27,335
15.2 Maturity profile of HomeStart's investments		
At call	13,544	8,659
Not longer than 3 months	12,955	13,440
Longer than 3 months and not longer than 12 months	6,431	5,236
Total investments	32,930	27,335

NOTE 16. Housing loans and advances		
	2005	2004
	\$'000	\$'000
16.1 Net loans and advances		
Primary loans	988,074	782,447
Subsidised loans	36,274	35,924
Control accounts	(82)	364
Gross loans and advances	1,024,266	818,735
Specific provisions for impairment	(1,172)	(661)
Unearned income	(242)	(281)
	1,022,852	817,793
General provisions for impairment	(16,658)	(15,751)
Net loans and advances	1,006,194	802,042
Specific provision for doubtful debts		
Opening balance	661	1,093
Doubtful debts expense	511	(432)
Closing balance	1,172	661
General provision for doubtful debts		
Opening balance	15,751	13,762
Doubtful debts expense	907	1,989
Closing balance	16,658	15,751
Total provision for doubtful debts	17,830	16,412

16.2 Asset quality disclosures

HomeStart provides for doubtful debts as described in Note 2.9. When management determines that loan recovery is doubtful, the principal amount and accrued interest on the obligations are written down to estimated realisable values. Interest and charges are no longer taken to profit when their payment is considered unlikely.

Non-accrual loans		
With provision	4,977	3,289
Without provision	87	417
Total non-accrual loans	5,064	3,706
Specific provision	1,137	661
Interest foregone on non-accrual loans	242	281
Real estate acquired		
Balance of loans at end of financial year	458	44
Specific provision	35	-
Past due loans		
Balance of loans at end of financial year	2,281	4,626
Specific provision	-	-

The balance of housing loans and advances is shown after deducting the provision for doubtful debts, ensuring that the balance reflects the expected recoverable amount of these loans. The basis of determining the provision for doubtful debts is disclosed at note 2.9.

16.3 Maturity profile of HomeStart's housing loans and advances	2005	2004
	\$'000	\$'000
Longer than 3 months and not longer than 12 months	-	1
Longer than 1 year and not longer than 5 years	107	77
Longer than 5 years	1,024,159	818,657
Total gross loans and advances	1,024,266	818,735

The maturity distribution of housing loans and advances is based on contractual terms and not when they are due to reprice or are likely to be repaid. HomeStart Loans do not have fixed contractual terms as they vary with changes in inflation and interest rates. Based on standard assumptions, these loans would have an initial term ranging up to 28 years, but the majority of loans are anticipated to have actual contractual terms of a much shorter maturity period (around 60% of current customers will repay their loan in under 20 years).

Total loans either approved but not settled or settled but not fully drawn amounted to \$35.4 million (\$28.0 million, 2004).

NOTE 17. Office and computer equipment		
	2005	2004
	\$'000	\$'000
Leasehold improvements		
Leasehold improvements at cost	273	159
Accumulated amortisation	(131)	(64)
Total leasehold improvements	142	95
Other office and computer equipment		
Other office and computer equipment at cost	3,682	3,220
Accumulated depreciation	(2,967)	(2,675)
Total other office and computer equipment	715	545
Total office and computer equipment	857	640

	Leasehold improvements	Other office and computer equipment	Total
	\$'000	\$'000	\$'000
Carrying amount at the beginning of the financial year	95	545	640
Additions	114	520	634
Disposals	-	(8)	(8)
Depreciation and amortisation	(67)	(342)	(409)
Carrying amount at the end of the financial year	142	715	857

NOTE 18. Other assets		
	2005	2004
	\$'000	\$'000
Other assets – entities within the SA Government		
Accrued interest on derivatives (SAFA)	(1)	339
Other	25	5
Total other assets – entities within the SA Government	24	344
Other assets – entities external to the SA Government		
Accrued interest on housing loans and advances	202	155
Accrued interest on cash at bank	37	54
GST recoverable	40	35
Prepayments	81	82
Total other assets – entities external to the SA Government	360	326
Total other assets	384	670

NOTE 19. Payables		
	2005	2004
	\$'000	\$'000
Payables to entities within the SA Government		
Creditors	-	5
Accrued administration expenses	100	94
Employment on-costs	137	110
Accrued interest payable	2,066	2,358
Accrued guarantee fee payable	541	-
Total payables to entities within the SA Government	2,844	2,567
Payables to entities external to the SA Government		
Creditors	341	509
Accrued administration expenses	171	118
Accrued loan manager fees	292	256
Total payables to entities external to the SA Government	804	883
Total payables	3,648	3,450

NOTE 20. Interest bearing liabilities		
	2005	2004
	\$'000	\$'000
20.1 Interest bearing liabilities		
Interest bearing liabilities payable to entity within the SA Government		
Short term interest bearing borrowings	154,754	80,700
Long term interest bearing liabilities	745,000	610,275
Total interest bearing liabilities payable to entity within the SA Government	899,754	690,975
20.2 Maturity profile of HomeStart's interest bearing liabilities		
At call	5,334	1,200
Not longer than 3 months	104,000	79,500
Longer than 3 months but not longer than 1 year	45,420	-
Longer than 1 year and not longer than 5 years	534,000	442,275
Longer than 5 years	211,000	168,000
Total interest bearing liabilities	899,754	690,975

HomeStart sources its borrowings from the South Australian Government Financing Authority (SAFA) and is subject to a gross borrowing limit of \$925 million (\$825 million, 2003-2004).

NOTE 21. Employee benefits		
	2005	2004
	\$'000	\$'000
Annual leave	281	220
Long service leave	522	436
Accrued salaries	84	67
Total employee benefits	887	723

The benchmark for the measurement of the long service leave liability is 7 years.

NOTE 22. Employee benefits and related on-costs		
	2005	2004
	\$'000	\$'000
Accrued salaries		
On-costs included in payables (note 19)	21	15
Provision for employee benefits (note 21)	84	67
Total accrued salaries	105	82
Annual leave		
On-costs included in payables (note 19)	39	30
Provision for employee benefits (note 21)	281	220
Total annual leave	320	250
Long service leave		
On-costs included in payables (note 19)	77	65
Provision for employee benefits (note 21)	522	436
Total long service leave	599	501
Aggregate employee benefit and related on-costs	1,024	833

NOTE 23. Tax liability		
	2005	2004
	\$'000	\$'000
Income tax payable to entity within the SA Government	1,108	620
Total tax liability payable to entity within the SA Government	1,108	620

NOTE 24. Other liabilities		
	2005	2004
	\$'000	\$'000
Other liabilities payable to entity within the SA Government		
Aboriginal loan security deposit	250	250
Total other liabilities payable to entity within the SA Government	250	250
Other liabilities payable to entity external to the SA Government		
Adelaide New Owners Grant	18	48
Total other liabilities payable to entity external to the SA Government	18	48
Total other liabilities	268	298

NOTE 25. Equity		
	2005	2004
	\$'000	\$'000
Balance at the beginning of the financial year	136,490	138,384
Net profit	4,500	3,106
Dividend paid	(1,485)	(1,025)
Capital distribution	(3,515)	(3,975)
Balance at the end of the financial year	135,990	136,490

Pursuant to Section 26 of the Housing and Urban Development (Administrative Arrangements) Act 1995, HomeStart must recommend to the Minister for Housing, that it pay a specified dividend or not pay a dividend, for the financial year, as it considers appropriate. The Act further provides for the Minister, in consultation with the Treasurer, to approve the recommendation of HomeStart, or to determine that another dividend, or no dividend, should be paid.

During 2004-2005, HomeStart recommended and paid a dividend of \$5 million which has been allocated between dividend and capital repatriation in accordance with an established dividend policy based on commercial principles.

Note 26. Financial instruments

26.1 Interest rate risk

Interest rate risk is managed through matching HomeStart's borrowings with its home loan assets portfolio. The resulting repricing mismatch is measured daily and monitored by the Finance Sub-Committee on a weekly basis and the Asset and Liability Committee on a monthly basis.

The following tables show the average balance for each of the major categories of interest-bearing assets and liabilities, the amount of interest income or expense and the average interest rate (which is calculated on average monthly balances over the year).

2005	Average balance \$'000	Interest \$'000	Average interest rate %
Interest revenue			
Cash used for operating activities	481	20	4.16%
Cash used for investing activities	937	53	5.66%
Housing loans and advances	934,765	65,345	6.99%
	936,183	65,418	6.99%
Interest expense			
Interest on borrowings	805,426	43,829	5.44%
2004			
	Average balance \$'000	Interest \$'000	Average interest rate %
Interest revenue			
Cash used for operating activities	552	18	3.26%
Cash used for investing activities	1,296	69	5.32%
Housing loans and advances	759,022	51,245	6.75%
	760,870	51,332	6.75%
Interest expense			
Interest on borrowings	626,156	32,358	5.17%

HomeStart's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities are set out below:

Fixed interest maturing in:							
2005	Weighted average interest rate	Floating interest rate \$'000	1 year or less \$'000	1 to 5 years \$'000	More than 5 years \$'000	Non interest bearing \$'000	Total \$'000
Financial assets:							
Cash used for operating activities	5.24%	744	-	-	-	-	744
Cash used for investing activities	5.45%	546	-	-	-	-	546
Composite bond index investment		-	-	-	-	6,431	6,431
Investment – property and equity		-	-	-	-	13,544	13,544
Bank bills	5.03%	-	12,955	-	-	-	12,955
Housing loans and advances	7.25%	890,990	35,629	97,644	-	3	1,024,266
Other assets		-	-	-	-	384	384
		892,280	48,584	97,644	-	20,362	1,058,870
Financial liabilities:							
Borrowings	5.58%	899,754					899,754
Interest rate swaps (notional principal amounts)		(154,000)	48,000	106,000	-	-	-

Fixed interest maturing in:							
2004	Weighted average interest rate	Floating interest rate \$'000	1 year or less \$'000	1 to 5 years \$'000	More than 5 years \$'000	Non interest bearing \$'000	Total \$'000
Financial assets:							
Cash used for operating activities	2.64%	550	-	-	-	-	550
Cash used for investing activities	5.20%	1,319	-	-	-	-	1,319
Composite bond index investment		-	-	-	-	5,236	5,236
Investment – property and equity		-	-	-	-	8,659	8,659
Bank bills	5.43%	-	13,440	-	-	-	13,440
Housing loans and advances	6.93%	713,682	20,003	85,049		1	818,735
Other assets		-	-	-	-	670	670
		715,551	33,443	85,049		14,566	848,609
Financial liabilities:							
Borrowings	5.43%	690,975	-	-	-	-	690,975
Interest rate swaps (notional principal amounts)		(112,500)	28,500	84,000	-	-	-

The weighted average interest rate is calculated on the balances outstanding as at 30 June. The effect of interest rate swaps and forward rate agreements has been incorporated into the weighted average interest rate.

26.2 Off - balance sheet derivative instruments

Interest Rate Swaps

At 30 June 2005 HomeStart had floating/fixed swaps with a total notional value of \$154 million with the fixed rates varying between 4.84% and 6.10%. This helps HomeStart in eliminating the mismatch between repricing of its assets with that of its liabilities.

At 30 June 2004 HomeStart had floating/fixed swaps with a total notional value of \$112.5 million with the fixed rates varying between 4.84% and 6.11%. HomeStart also had floating/floating swaps with a notional value of \$20.0 million with the rates set at 30 and 180 day bank bill swap reference rate (BBSW).

26.3 Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The credit risk on financial assets has been recognised in the Statement of Financial Position as the carrying amount, net of any provisions for doubtful debts. HomeStart manages its credit risk through compliance with credit policies and procedures. It also has registered mortgages over the security properties.

HomeStart is not materially exposed to any individual borrower. HomeStart only lends in South Australia and is therefore only exposed to the property market in this State.

HomeStart's composite bond index investment and investments in listed property and equity funds represent exposure to the broader Australian bond, property and equities markets.

26.4 Net fair value

The carrying amounts and net fair values of financial assets and liabilities as at the reporting date are as follows:

	2005 \$'000		2004 \$'000	
	Carrying value	Net fair value	Carrying value	Net fair value
Assets				
Cash	1,290	1,290	1,869	1,869
Composite bond index investment	6,431	6,431	5,236	5,236
Bank bills	12,955	12,955	13,440	13,440
Housing loans and advances	1,006,194	1,012,199	802,042	805,612
Investments	13,544	13,544	8,659	8,659
Other assets	384	384	670	670
Liabilities				
Borrowings	899,754	901,176	690,975	691,337

Cash

The carrying value of cash approximates its net fair value.

Housing loans and advances

The carrying value of loans and advances is net of specific and general provisions for impairment and impaired loans unearned income.

The carrying amount is a reasonable estimate of net fair value of variable rate loans. The net fair value of fixed rate loans has been calculated by discounting the future principal and interest cash flows using rates determined from the current yield curve and loan repricing dates.

Investment

The net fair value of investments is based on quoted market prices.

All other financial assets

The carrying values of all other financial assets approximate their net fair values.

Borrowings

The net fair value of HomeStart's borrowings was determined based on the quoted market prices.

Off-balance sheet financial instruments

The net fair value of off-balance sheet financial instruments held as at the reporting date are:

	2005 \$'000	2004 \$'000
Interest rate swaps	(333)	17

NOTE 27. Commitments for expenditure

	2005 \$'000	2004 \$'000
27.1 Capital commitments		
HomeStart's capital commitments are for the completion of leasehold improvements at office accommodation at 153 Flinders Street.		
Capital expenditure contracted for at the reporting date but not recognised as liabilities in the financial report, is payable as follows:		
Not later than one year	1,700	-
Total capital commitments	1,700	-

27.2 Operating lease commitments

HomeStart's operating leases are for office accommodation. The leases are non-cancellable with terms ranging up to 5 years with some leases having the right of renewal. Rent is payable monthly in advance.

The total amount of rental expense for minimum lease payments in the financial year is disclosed in note 13.

Commitments under non-cancellable operating leases at the reporting date not recognised as liabilities in the financial report, are payable as follows:

Not later than one year	704	357
Later than one year but not later than five years	3,678	23
Later than five years	-	-
Total operating lease commitments	4,382	380

Note 28. Contingent liabilities

HomeStart has no material contingent liabilities as at 30 June 2005.

Note 29. Cash flow reconciliation

29.1 Reconciliation of cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank.

Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the items in the Statement of Financial Position as follows:

	2005 \$'000	2004 \$'000
Deposits at call	744	550
Money market deposits	546	1,319
Cash as recorded in the Statement of Financial Position	1,290	1,869
Cash as recorded in the Statement of Cash Flows	1,290	1,869

29.2 Reconciliation of profit from ordinary activities after income tax to net cash inflows/(outflows) from operating activities:

	4,500	3,106
Profit from ordinary activities after income tax equivalents	4,500	3,106
Add/(less) items classified as investing or financing activities:		
(Gain) on sale of fixed assets	(3)	(1)
Financial instruments	-	(8)
Add/(less) non cash items:		
Depreciation and amortisation expense	409	300
Unrealised change in market value of investments	(590)	(576)
Reinvestment of investment income	(1,964)	(746)
Bad debts written off	36	22
Unearned income on bad debts written off	12	5
Fees applied directly to loan accounts	(4,325)	(2,151)
Net cash outflows from operating activities before changes in assets and liabilities	(1,925)	(49)
Changes in assets and liabilities:		
Increase in provision for doubtful debts	1,418	1,557
Increase in payables	198	-
Increase in provision for employee benefits	164	119
Decrease in other liabilities	(30)	(701)
Decrease in unearned interest income	(39)	(466)
Increase/(decrease) in tax liability	488	(1,249)
Decrease in other assets	286	144
Net cash inflows/(outflows) from operating activities	560	(645)

Note 30. Events after balance date**Impact of adopting Australian equivalents to International Financial Reporting Standards**

For reporting periods beginning on or after 1 January 2005, HomeStart will comply with Australian equivalents to the International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board (AASB). HomeStart will adopt these standards for the first time in the published financial report for the year ended 30 June 2006.

During the year, HomeStart has continued with its transition process from Australian GAAP to AIFRS. The transition to AIFRS is currently at the practical implementation phase and is substantially complete.

The opening AIFRS balance sheet as at 1 July 2004 has been completed as it forms the basis of accounting under AIFRS in the future and is required for the preparation of HomeStart's first fully compliant financial statements for the year ending 30 June 2006. This opening balance sheet will incorporate the choice of accounting policies available, including elective exemptions under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards.

HomeStart has decided to apply the exemption provided in AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards which permits entities not to apply the requirements of AASB 132 Financial Instruments: Presentation and Disclosures and AASB 139 Financial Instruments: Recognition and Measurement for the financial year ended 30 June 2005.

In accordance with the requirements of AASB 1047 Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards, it is declared that no material impacts are expected to the financial report at 30 June 2005, had it been prepared using the Australian equivalents to IFRSs. This is due to the application of the exemption provided by AASB 1 described above.

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS. The standards will be applied from 1 July 2005. The impacts of the following changes are not currently known or reliably estimable.

30.1 Classification of financial instruments

Under AASB 139 Financial Instruments: Recognition and Measurement, financial instruments will be required to be classified into one of five categories which will, in turn, determine the accounting treatment of the item.

HomeStart's loan assets have been classified as loans and receivables. HomeStart's borrowings have been classified as financial instruments designated at fair value through profit and loss. This is a change of accounting policy, since the current accounting policy does not classify financial instruments.

30.2 Measurement of financial instruments

Under AASB 139 Financial Instruments: Recognition and Measurement, all loan assets (apart from subsidised loans) will be initially recognised at 1 July 2005 at fair value being face value plus net transaction costs. Net transaction costs include both loan origination fees received and loan origination costs incurred.

Where HomeStart provides subsidised loans, such as the Advantage loans and Equity Start loans, at rates other than market interest rates, the initial recognition of these loans at fair value will result in an initial loss being generated in the Statement of Financial Performance, being the difference between the amount disbursed and the fair value. Fair value is measured by discounting the expected cash flows using a market interest rate.

Interest on these subsidised loans will be brought to account using the amortised cost method noted below at a risk-free rate of interest, based on 5 year (for Advantage loans) and 10 year (for Equity Start loans) SAFA Bonds. Loans will be carried at amortised cost instead of book value in the Statement of Financial Position. The calculation of amortised costs will require some fees and costs directly attributable to the loans to be capitalised and brought to account on an effective yield basis. These fees and costs are currently recognised in the Statement of Financial Performance when received or paid.

30.3 Derivative financial instruments

Currently, HomeStart's derivative financial instruments are not recognised in the Statement of Financial Position, being recorded only in the Notes to the Annual Accounts. From 1 July 2005, AASB 139 Financial Instruments: Recognition and Measurement requires HomeStart to recognise its derivative financial instruments (mainly interest rate swaps) in the Statement of Financial Position at fair value.

AASB 139 requires that all derivatives (if not designated as effective hedging instruments) be measured at fair value through the Profit and Loss (Statement of Financial Performance). In order to prevent spurious fluctuations in reported profit, AASB 139 also contains extensive hedge accounting rules that apply to all hedging activity. This is a significant change from current practice.

Fixed interest rate loan assets will be valued at fair value being face value plus net transaction costs, and will be hedged by interest rate swaps, that will be designated as cash flow hedges, to enable the portion of the gain or loss that is effective, to be recognised in equity.

As these fluctuations can be substantial and will ultimately revert to zero by the time each swap matures, it is inappropriate to reflect fluctuations through the Statement of Financial Performance.

HomeStart must therefore ensure that its derivatives meet the specific hedge accounting criteria set out in AASB 139.

Interest rate swaps will be valued on a mark to market basis monthly using HomeStart's Epsilon Treasury System.

30.4 Impairment of financial assets

Under AASB 139 Financial Instruments: Recognition and Measurement, an impairment provision can only be raised if there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("a loss event") and that loss event (or events) has a reliably measurable impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

AASB 139 Financial Instruments: Recognition and Measurement, requires that any provision for impaired assets is equal to the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. This differs from the current method of provision calculation, in that the estimated future cash flows of the financial assets are not discounted.

Under AASB 139, interest income must be recognised on impaired loan assets using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

HomeStart has in the past based its general provisioning on actuary determined loss rates for the entire HomeStart loan portfolio. AASB 139 will require a different approach to segregate the portfolio by different categories of risk and linking of defaults to identified "loss events". This requirement to link to loss events will mean that losses inherent in a portfolio but not yet identifiable will be precluded.

30.5 Changes in accounting policies

Changes in accounting policies (subsequent to the initial adoption of AIFRS) will be recognised by restating the comparatives rather than making current year adjustments with note disclosures of prior year impacts.

Auditor-General's Report



Auditor-General's
Department

INDEPENDENT AUDIT REPORT

TO THE MEMBERS HOMESTART FINANCE BOARD

SCOPE

As required by section 31 of the *Public Finance and Audit Act 1987* and section 27(4) of the *Housing and Urban Development (Administrative Arrangements) Act 1995*, I have audited the financial report of HomeStart Finance for the financial year ended 30 June 2005. The financial report comprises:

- A Statement of Financial Performance;
- A Statement of Financial Position;
- A Statement of Cash Flows;
- Notes to and forming part of the Financial Statements;
- Statement by HomeStart Finance Board Members;
- Statement by HomeStart Finance Acting Chief Executive Officer and Acting Chief Financial Officer.

The Members of the HomeStart Finance Board are responsible for the financial report. I have conducted an independent audit of the financial report in order to express an opinion on it to the Members.

The audit has been conducted in accordance with the requirements of the *Public Finance and Audit Act 1987* and Australian Auditing and Assurance Standards to provide reasonable assurance whether the financial report is free of material misstatement.

Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, Accounting Standards and other mandatory professional reporting requirements in Australia so as to present a view which is consistent with my understanding of HomeStart Finance's financial position, the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

AUDIT OPINION

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of HomeStart Finance as at 30 June 2005, the results of its operations and its cash flows for the year then ended.

28 September 2005

K I MacPHERSON
AUDITOR-GENERAL



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Auditors

Auditor-General of South Australia

Financial Statements

The financial statements in this annual report have been extracted from the full annual accounts which have been submitted to the Auditor-General.

For general information or copies of the annual report

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