HomeStart Finance

Annual Report 2005 - 2006

WE ARE HELPING MORE SOUTH AUSTRALIANS OWN A HOME

Government of South Australia

HomeStart FINANCE

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Acknowledgements
HomeStart would like to thank all the customers who are featured in our Annual Report - they put smiles on our faces!

Letter of Transmittal

3 October 2006

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

Dear Minister,

On behalf of the Board and Management of HomeStart Finance, I am pleased to present the HomeStart Finance Annual Report for the year ended 30 June 2006.

The Report documents the achievements and activities of HomeStart Finance over the past 12 months and on behalf of all HomeStart staff, I commend the 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

Government of South Australia

HomeStart FINANCE

Contents

Our mission

HomeStart operates commercially within the framework of government to:

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

01

PROFILE

NAME:
Brenton, Alana
& Natalie Bennier

LOAN TYPE:
Nunga Loan

HOMESTART CUSTOMER SINCE:
2005

WHAT DOES HOME OWNERSHIP MEAN TO YOU:
We have stability and my kids have a place to call home that will always be familiar.

Year in review

2005–06 has been a significant year for HomeStart. Over the past 12 months we have achieved solid financial and socially responsible results, as well as making substantial progress toward achieving our mission of providing affordable housing solutions for more South Australians.

Driven by the directions established in the State Housing Plan, South Australia's Strategic Plan and our own Business Plan, we have focused on increasing home ownership opportunities through product development, community support, sound financial management, and a dedicated and professional workforce.

At the centre of this work and key to our future activity is our commitment to ensuring that, in an ever more challenging housing market, our customers can access the financial, social and personal benefits that home ownership brings.

Affordable housing solutions

We reached a landmark 50 000 loan settlements this year, evidence that our approach to home finance is successful in making a tangible difference – particularly for low to moderate income earners who face increasing difficulties entering the housing market.

Ever committed to the challenge of creating affordable housing solutions for South Australians, our overall lending for the year was $377.04 million, and we assisted 2927 new customers with their home ownership needs.

Our customer base is from a wide cross section of the community, with 54% of new loans settled this year for low income customers, and 44% relying on Centrelink benefits as their main source of income.

We were particularly pleased to reach the 200th settlement of our Nunga Loan during the year, further confirmation of the success of this product which was developed especially to assist Aboriginal South Australians into a home of their own.

On the new product front, we undertook a significant amount of research and modelling to arrive at a Shared Appreciation Loan facility, which is a 'shared equity' scheme that has the potential to significantly increase customer purchasing power and reduce monthly loan repayment commitments. HomeStart hopes to launch this new product in the coming financial year.

We also worked closely with the migrant community to offer opportunities and explore options to assist recent arrivals with their home ownership aspirations. As well as launching an initiative which allows skilled business migrants to buy a home sooner through reduced length of employment, we have undertaken extensive community consultation with regard to suitable solutions for humanitarian migrants.

On the regional front, we opened an Information Centre in Murray Bridge, which is proving to be as popular as our Whyalla Information Centre. We also continued our involvement in a pilot project to develop 32 homes in Naracoorte as part of a joint venture between the Land Management Corporation and Empak Homes.

We launched a new marketing campaign featuring HomeStart customers, which includes television, press and radio advertising and a range of other marketing material including our customer newsletter, which continued to be a regular source of information for our client base.

Our Information Technology (IT) team implemented a new data and communications network to coincide with our office relocation to 153 Flinders Street in November 2005. This ensures the organisation is well equipped to support its staff, customers and business partners.

Community connection

This year saw further development of the EquityStart initiative, a key component of the State Housing Plan. Since inception, the initiative has helped 354 public housing tenants make the shift to home ownership, with the support of HomeStart, the housing agencies which now form Housing SA and the state government. We expect that refinement of the product will allow many more tenants to make the move over the coming year.

We expanded our support for community finance and the affordable housing supply through consolidation of working relationships with industry and government, underpinned by an internal restructure to allow development in this area.

A key achievement was the approval of four pilot projects through our CommunityStart Loan. We aim to support more community housing initiatives over the coming years.

HomeStart remains dedicated to supporting local communities through a targeted sponsorship program. In 2005–06, we continued to sponsor a wide range of events and organisations across metropolitan and regional areas and committed to many new causes, including the Special Music Centre at Fremont-Elizabeth City High School and the Hutt St Centre for the homeless' Portavin Touchwine event.

We also continued to provide free information sessions about home buying through the HomeStart Women's Unit and the SA HomeBuyers Seminar Series, and began development of an online Money Management Education program.

Effective and sustainable business practices

It was another excellent year financially for HomeStart, as once more our blend of social and commercial objectives was met through sustainable financial management and sound risk management practices. In summary:

- an operating profit of $6.7 million (before tax)
- contributions paid to government of $15.1 million
- a capital base of $139 million
- bad debts remained low
- a conservative provisioning policy to protect stakeholder assets
- RTV assets returned 11.5% against the performance benchmark of 6.5%.

Our success can be attributed to our buoyant culture and outstanding staff group, whose high level of satisfaction with their work was again evident in the high results returned from a staff survey undertaken by Quantum Management.

The organisation also benefited from our experienced and knowledgeable Board of Management, who provided firm guidance on corporate accountability, strategic planning, monitoring and policy development.

Towards the future

With a firm grounding in the success of 2005–06, HomeStart looks set to continue providing a vital service to South Australians, particularly those on low to moderate incomes.

Lead by the strategic vision of our Minister, the Hon. Jay Weatherill, MP, we will work toward addressing the issues that hinder access to suitable housing by building upon our current suite of innovative products, developing our community finance capacity and undertaking more affordable housing initiatives.

We will utilise our strong financial base, enviable skills set and customer centric focus to meet the challenges of the housing market, ensuring that South Australia remains a leader in the provision of affordable home ownership opportunities for our citizens.

Gary Storkey
Chief Executive Officer
HomeStart Finance

"Housing is a journey for us all, where we seek to gain as much freedom as we can. Home ownership is key to this and at HomeStart we try to allow households a fair go in building their own freedom. Whether you are a first time buyer, recovering from a life changing event or enjoying the later part of life, at HomeStart we are here to help more South Australians become home owners."

Financial indicators

Return on equity	4.9%
Operating profit before tax	$6.7 million
Cost of subsidy provided	$2.2 million
Payments to government	$15.1 million

Balance sheet strength

Capital	$139 million
Net loan losses	$0.01 million
Loan assets	$1.19 billion
Capital adequacy ratio	16.4%

02

PROFILE

NAME:
Camille, Scott, Krystal, Paula & Carissa Page
50 000th customers

LOAN TYPE:
EquityStart

HOMESTART CUSTOMER SINCE:
2006

WHAT DOES HOME OWNERSHIP MEAN TO YOU:
It means a lot to us, it has been our big dream to own our home.

Affordable housing choices

Our role

HomeStart is here for one purpose – to help more South Australians enjoy the benefits and security that home ownership brings. At the core of what we do is the uwavering belief that owning a home has real value; to the individual, the community, and the state.

Numerous studies have demonstrated that suitable housing is an essential component of a fully functioning community. Appropriate housing remains a key element for well being and security, promoting a sense of belonging that is of value for all people, from children to the elderly.

Home ownership is seen as a particularly important achievement by the majority of Australians, with a recent survey by the Housing Industry Association indicating that nearly a third of the population aspire to buying a home in the coming year.[1]

However, while it remains a highly desirable goal, breaking into the housing market and prospering once there is becoming a struggle for some sectors of the community. In the same survey, 58% of respondents who had not bought property in the past year, nor were looking to in the future, said they simply could not afford it.

In South Australia, affordability remains the biggest barrier to home ownership, with suitable supply also posing problems. While property prices in this state are on average lower than the Eastern states, the median house price in Adelaide continues to steadily increase, and over the last decade has risen from $110 000 (March quarter 1996) to $277 000 (March quarter 2006).

For low to moderate income earners, affordability issues are having a significant impact on households' ability to purchase a suitable home in a location of their choosing.

Renting does not necessarily provide a satisfactory or affordable option. The latest figures from the Real Estate Institute of Australia (REIA) suggest that housing is now less affordable than at any time in the last two decades. Their June 2006 survey indicates that the number of vacant properties is at an all time low, which has led to expensive rental rates that can see families committing more than 40% of their income to meeting payments.[2]

This means that while South Australia is enjoying a time of economic strength and optimism, housing continues to be an important issue, particularly for those on lower incomes for whom the challenges can seem insurmountable.

HomeStart plays a major role in providing innovative solutions to address some of these key housing challenges. Through a combination of leadership and innovation, aligned closely with the state government and housing industry group objectives, we continually strive to meet the needs of our customers, potential customers and stakeholders.

Within the framework of strong housing policy and the State Housing Plan, we will continue to deliver a careful balance of financial return and socially responsible solutions. Across all of our activities, our operations will continue to be underpinned by good governance principles and processes, and a dedicated and committed workforce.

About HomeStart

HomeStart was established in 1989 in an effort to overcome two substantial barriers to home ownership at that time: high interest rates and a lack of affordable home loans for the less wealthy households in our state.

As a statutory corporation established 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 loan 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.

[1] Housing Industry Association survey, June 2006
[2] REIA/Mortgage Choice Real Estate Market Facts, June Quarter 2006 edition

Our role

Affordable housing choices

The Honourable
Jay Weatherill, MP
Minister for Housing

"Home ownership is an aspiration that many of us share. We want to provide opportunities for people from all walks of life to take this step. By doing this, we will help build healthy families and strong communities."

We report to the Minister for Housing, the Hon. Jay Weatherill MP, and work closely with the Department for Families and Communities to coordinate and deliver housing services.

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 we have responded to the challenges of a tightening market and the changing needs of our customer base by re-assessing our internal structure so that we can create a united and dynamic organisation for the future.

The restructure included the creation of a Community Finance arm, which is responsible for managing the development of products that will assist the community housing sector to manage their growth, and assist in the supply of affordable homes for South Australians.

Community Finance is a key area of potential growth for HomeStart and signals attempts to assist in the stimulation of supply side responses to the issue of declining housing affordability.

This positive change will result in an enhanced ability to reach our core objective of creating affordable housing choices for more South Australians.

As in previous years, it is our innovative range of products and services that have allowed us to assist people for whom traditional lending structures do not work. By providing this assistance, we are also making significant contributions to achieving the objectives outlined in South Australia's Strategic Plan, which serves to move South Australia toward a positive and prosperous future.

Led by our primary product, the HomeStart Home Loan, we have been able to address barriers to home ownership such as affordability, saving capacity, loan serviceability and credit commitments, providing opportunities for more people to achieve their home ownership aspirations.

Through variations on this flagship loan, we have encouraged young professionals to stay in the state, developed initiatives to attract skilled migrants, provided more than 200 home loans for Indigenous South Australians and helped more than 350 social housing tenants to become home owners through the EquityStart initiative.

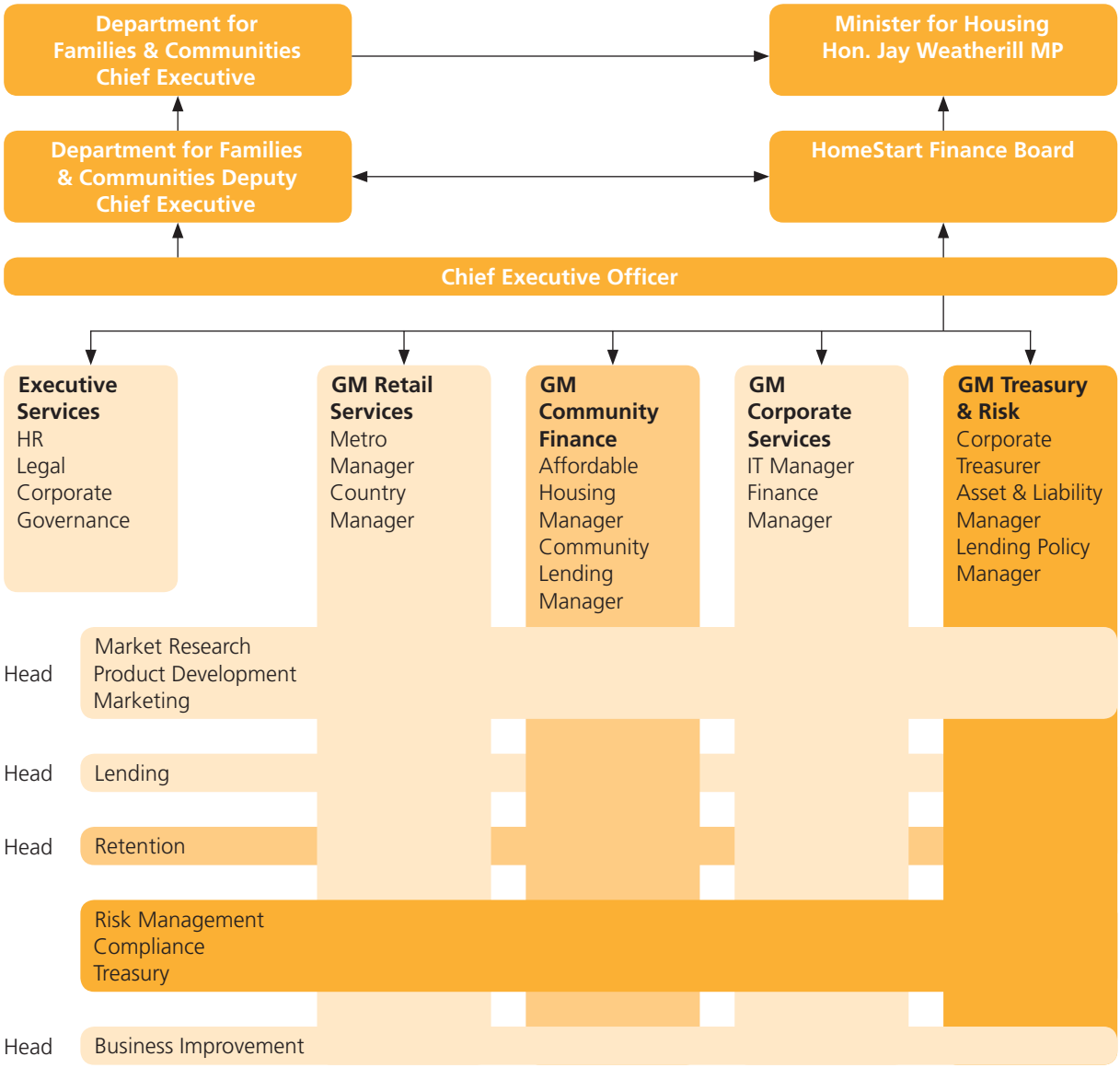
We have continued to provide our self-subsidised Advantage Loan to customers on lower incomes, who benefit significantly from the boost it provides to their purchasing power, without facing increased repayments.

As part of our charter, we have also provided options for those who require other forms of housing assistance, such as carers requiring funds to provide the necessary amenities in their home and seniors seeking to use their home equity to supplement their income.

We have also made a commitment to supporting the community through targeted sponsorships, providing financial and in-kind support to a wide range of individual, group, and industry causes. This dedication to contributing to our state's vibrant culture is indicative of our careful balance between commercial drive, financial imperatives and social responsibility.

As we look toward the coming years, we must continue to evolve and expand in order to overcome the affordability obstacles. We believe that HomeStart is well positioned to continue to address the issues surrounding home ownership in South Australia, thus ensuring that more people in our state can enjoy the full benefits of a home ownership journey.

HomeStart organisational chart



PROFILE

NAME:
Lawrence Lim
& Xin Xin Yiu

LOAN TYPE:
Graduate Loan

HOMESTART CUSTOMER SINCE:
2004

WHAT DOES HOME OWNERSHIP MEAN TO YOU:
Home ownership gives us a solid foundation to start achieving our financial dreams.

Delivering housing solutions

Affordable housing choices

HomeStart's purpose is to expand affordable housing options for South Australians. We are dedicated to providing lending solutions that can assist low to moderate income earners, for whom the challenge of affordability and limitations of traditional lending present significant barriers to owning their own home.

This year we reached a significant milestone – helping our 50 000th customer with their home ownership needs. Achieving this landmark number of settlements is satisfying evidence that our approach to home finance is successful in making a difference.

What enhances the satisfaction is the knowledge that many of these customers would not have achieved their home ownership goals without our assistance.

However, while we're proud to have helped so many South Australians, the issues surrounding affordability and supply are escalating. Current environmental factors, combined with changing customer needs, require focus and dedication to ensure our role remains relevant.

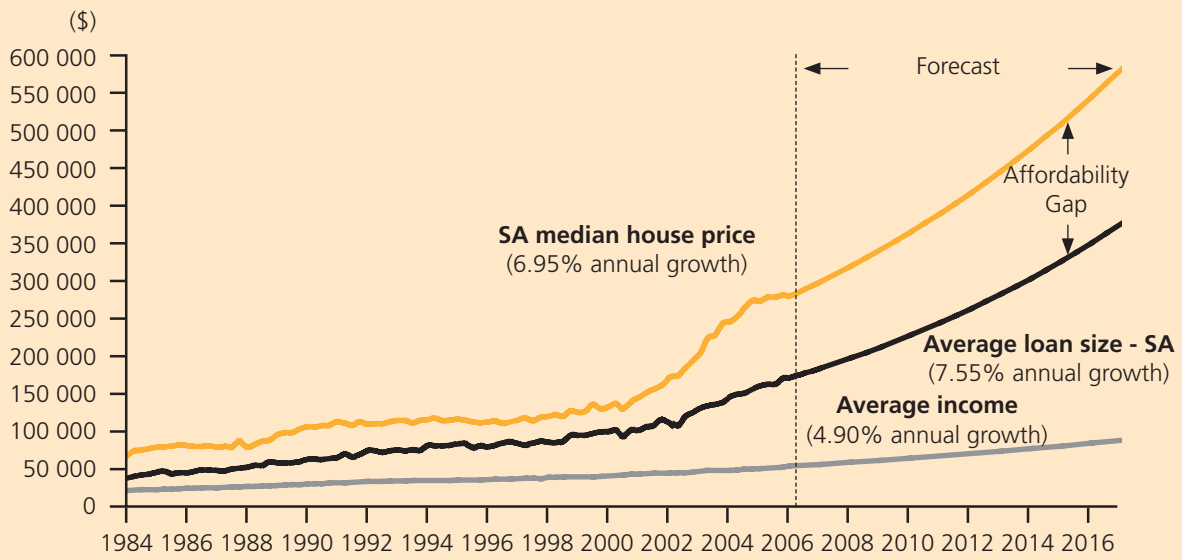
In 2005–06, affordability continued to decline. The gap between the South Australian median house price, average loan size and full time earnings is widening. Assuming that historical average annual growth rates from the last 22 years continue, the situation will deteriorate.

Coupled with this, the decrease in supply of affordable housing is making it difficult for our demographic to find a suitable home within their price range that they are able to afford.

Once in home ownership, people on lower incomes face the issue of large mortgage repayments, with many facing housing stress at some point on their home ownership journey.

For the more vulnerable in our community, such as the elderly, Aboriginal people and single parents, the effect of these factors on their ability to afford to buy a home is only magnified.

Forecast median house price, Average loan size and Average Ordinary Time Earnings using 22 year growth rate (1984-2016) Forecast from March 2006



Making the change

Over the past year HomeStart has continued to focus on innovative home loan solutions that will assist the customer at all points on their home ownership journey.

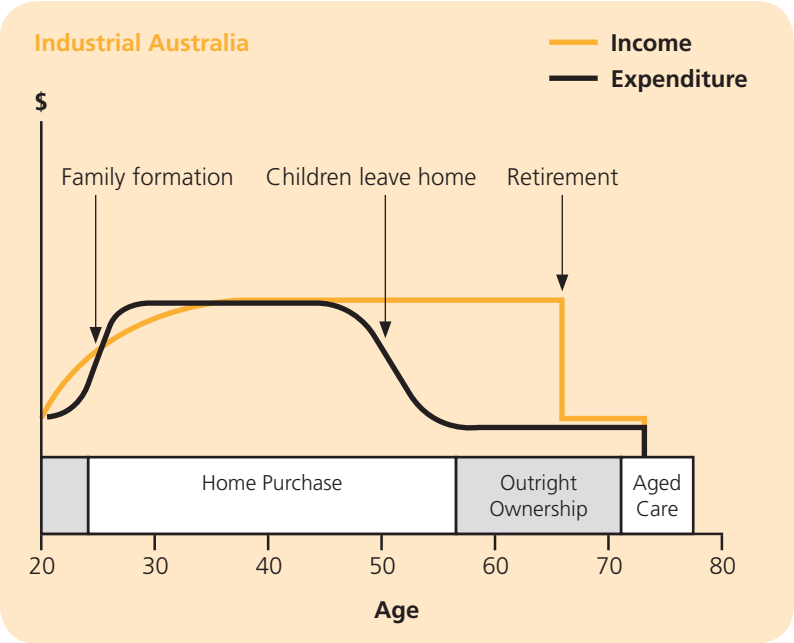
Reaching our 50 000th loan settlement has given us cause to reflect on how the needs of a HomeStart customer have changed over the 16 years since we were formed.

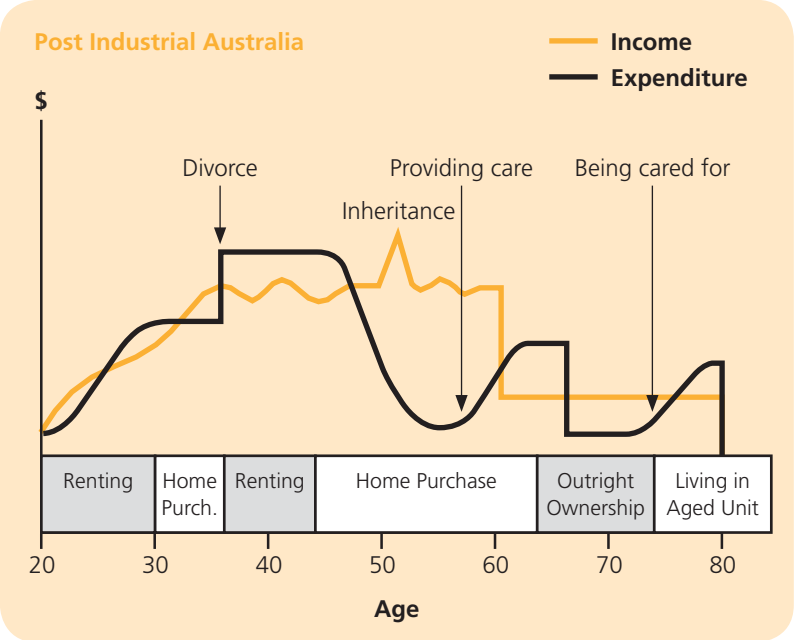
Whereas once the continuum from first home buyer to outright owner was relatively smooth, recent studies suggest that the journey is now often interrupted by significant changes in a customer's life – divorce, refinance, children living at home for longer and other factors, which all make for a less straight forward transition.[3]

For HomeStart, this has inspired a re-examination of both external factors and internal structures over the past year to ensure that we remain as flexible and innovative as the needs of our customers, while retaining our prudent and fiscally sound approach to growing our portfolio.

In order to continue to meet our goals and deliver housing solutions, we have adopted a multi-faceted approach to addressing the housing issues our state and its people are facing. We believe that over the coming years, the groundwork we are undertaking now will position us well to ensure many more South Australians can take the home ownership journey with us.

Changed housing careers





Source: Beer, 2005

[3] Beer, A. Faulkner, D. and Gabriel, M. 2005 21st Century Housing Careers and Australia's Housing Future, A Literature Review, Australian Housing and Urban Research Institute, Melbourne

Customer profile

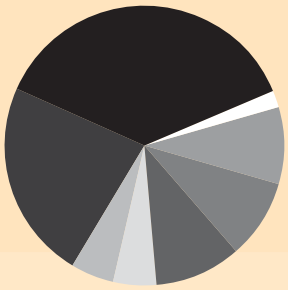
HomeStart customers come from a range of backgrounds, and personal and financial situations. We believe our success in meeting the aim of providing home ownership opportunities for more South Australians is evidenced in our customer demographics.

Of the loans settled during the past 12 months:

- 76% of customers had incomes less than the average weekly ordinary time earnings (which was $975 or $50 705 per year) as at 30 June 2006
- 35% of customers in the metro area had an annual income less than $32 500
- 19% of customers in country areas had an annual income less than $28 400
- 44% of customers had Centrelink benefits as their main source of income
- 48% were women (with 37% being single)
- 18% of customers utilised the subsidised Advantage Loan
- 41% of customers received the First Home Owner Grant
- 54% of loans were to single income households
- 32% 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 10% and regional areas 38%.

Geographical Distribution of New Lending



Onkaparinga	2%
Eastern	5%
Northern	5%
South	9%
Southern Fringe	8%
Western	10%
Northern Fringe	23%
Country	38%

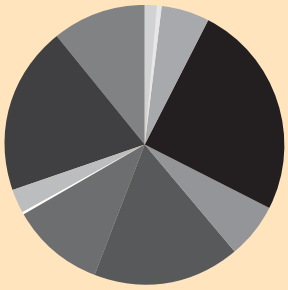
Marital Status of Main Applicant

Couple with children	18%
Single with children	18%
Couple without children	28%
Single without children	36%

Previous Accommodation of Main Applicant

Living with parents	8%
Other	8%
Housing Trust Tenant	11%
Own existing home outright	20%
Buying current home	21%
Private rental	32%

Value of Loans Settled by Main Product Types



Seniors Loan	0.3%
Other	0.5%
Nunga Loan	1.5%
Split Variable Loan	2.9%
Construction Loan	5.7%
Seniors Extension Loan	6.4%
Graduate Loan	10.6%
Refinance Loan	10.7%
Fixed Rate Loan	17.1%
Low Deposit Loan	19.5%
Established Loan	24.8%

PROFILE

NAME:
Kylie & Sophie Sims

LOAN TYPE:
Established

HOMESTART CUSTOMER SINCE:
2001

WHAT DOES HOME OWNERSHIP MEAN TO YOU:
It means security and the ability to do what I want to my place.

Home loan solutions

Over the past year HomeStart has refined and focused several of our home loan solutions to ensure we can continue to deliver the appropriate mix of risk and return while serving the needs of our customers.

Examples include introducing four and five year terms for our fixed interest rate option, improving access to our Home Equity Loan and introducing a discount on the establishment fee for discharging customers to encourage their return to HomeStart.

At the centre of our operations is the HomeStart Home Loan, which offers a viable alternative to traditional lending products through two unique points of differentiation that are designed to keep it affordable, namely:

1. Borrowing multiplier
The loan amount is set as a multiple of gross annual income to make sure it is proportional to the customer's earning capacity at that time. Centrelink benefits, part time and casual work, and child maintenance payments may all be included as income.

2. Repayment safeguard
Initial loan repayments are set at an affordable percentage of the customer's income (generally around 28%) and in most cases will only change once a year in line with inflation. This means the customer's repayment amount is unaffected by changes in interest rates and their income is thus protected from sudden increases in what they are required to repay on a regular basis.

These two features have been the key to the success of the HomeStart Home Loan, which in 2005–06 continued to make up the majority of our lending portfolio.

Other loans which incorporate the borrowing multiplier and repayment safeguard also performed strongly.

The Graduate Loan provides up to 100% of a property's value or purchase price (whichever is the lesser) to those with a diploma, degree or higher qualification from university, TAFE or other Registered Training Organisations, as well as enrolled nurses and South Australian Police Officers. This year, 268 loans were settled, to a total value of $57.3 million.

Similarly, the Low Deposit Loan, which offers an opportunity for those with little or no deposit to get into the housing market, saw 378 loans settled over the year, to a total value of $64.3 million.

Subsidised loans

The Advantage Loan

The Advantage Loan is a unique product designed especially to assist low income earners who may face severe challenges accessing the housing market. Available to households earning less than $35 880 per annum (before tax), the Advantage Loan acts as a 'top-up' on a variety of HomeStart loan products, providing a boost to purchasing power without adding to repayment amounts.

We provide a direct subsidy through the Advantage Loan in the form of an interest rebate period and low interest option.

In January 2006, the Advantage Loan was adjusted via an approved method of indexing based on an increase in the Adelaide median house price. This resulted in the maximum Advantage Loan amount being increased by $500 to $26 500, and the income brackets for Advantage Loan eligibility being increased by $2080 to $25 480 pa for the maximum and $35 880 for the minimum Advantage Loan.

In 2005–06, 530 Advantage Loans were written to a total value of $9.9 million.

The EquityStart Loan

EquityStart was launched in April 2005 to provide an opportunity for public housing tenants to buy a home of their own. Since then, more than 7000 people have registered their interest in the initiative.

Over the year, HomeStart made lending policy changes to allow more tenants to take up EquityStart, including lending of up to 100% plus fees for eligible applicants and allowing some debt consolidation for first home buyers.

At 30 June 2006, 354 EquityStart Loans were settled to a total value of $53.8 million, with 70% of customers purchasing in the private market and 30% purchasing a public housing property.

Niche solutions

The Nunga Loan

More than 200 Indigenous South Australians have settled a Nunga Loan since the product's inception in 2004. 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 of South Australia's Strategic Plan.

To ensure the ongoing viability of the Nunga Loan program, the maximum Loan to Valuation Ratio has been reduced to 105%. This still allows for HomeStart to lend enough to cover fees and charges associated with home purchase.

The Seniors Loan (deferred payment option)

HomeStart's Seniors Loan (deferred payment option) is a reverse mortgage style product developed especially to help people over 60 access the equity in their home without the need to sell it. 2005–06 was another successful year for this product, with 510 loans settled to a total value of $21.2 million.

The Skilled Migrant Initiative

HomeStart is dedicated to providing options for migrants who want to settle in our state. 2005–06 saw the introduction of our Skilled Migrant Initiative, which offers recently arrived migrants with a Business or Skilled Permanent Visa the opportunity to secure a HomeStart loan with a reduced requirement for length of employment.

We also examined the possibility of tailoring loans to meet the needs of other classes of migrants in the coming years.

Shared Appreciation Loan

Many potential home buyers on low incomes face significant challenges in being able to afford a loan and associated set up costs.

HomeStart has reviewed research that suggests a 'shared equity' scheme is a suitable option for addressing the problem and over the past 12 months has developed a Shared Appreciation Loan facility that could fulfil this purpose.

A significant amount of research and modelling has been undertaken by HomeStart to arrive at a Shared Appreciation Loan facility that:

- significantly increases borrowing / purchasing power
- significantly reduces monthly loan repayment commitments
- enables a customer to purchase a better quality or more preferably located home
- balances the percentage of appreciation required by HomeStart upon eventual sale of the property with customer's expectations of return
- is expected to still meet HomeStart's return on equity (ROE) target under subdued property market conditions
- has met with initial market acceptance in the form of Focus Group feedback.

The Shared Appreciation Loan facility has been conditionally approved by HomeStart's Board and is scheduled for further approval in the near future.

Community lending initiatives

Over the last 12 months, HomeStart has approved four CommunityStart loans to assist pilot projects for community housing in regional and metropolitan areas. The pilot phase is nearing completion and the CommunityStart loan will soon be offered to the wider Community Housing sector.

Our product and service features at a glance

Accessing HomeStart
www.homestart.com.au
ehomestart online loan facility
134 Loan Manager locations in SA*
Loan information in 15 languages
Extended opening hours
Women's Unit
Regional offices at Whyalla and Murray Bridge

Product Features
HomeStart Loan (maximum loan linked to median house price)
Advantage Loan ($26 500 maximum)
Fixed and split rate options
No mortgage loss insurance
Redraw facility available
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.

Our distribution network

In 2005–06 HomeStart relocated our Pirie Street and King William Street offices to a new location at 153 Flinders Street. We also opened an Information Centre in Murray Bridge, which has proved as popular as our Whyalla Information Centre.

In addition, we continued to service existing customers and new enquiries, through four recognised lending organisations:

- BankSA
- Bernie Lewis Home Loans
- HomeLoans Plus
- The Home Loan Centre.

HomeStart values the contribution these organisations make to our distribution network. Their dedication to service enhances the customer's home ownership journey, as evidenced by the 2006 Small Business Award received by The Home Loan Centre for outstanding customer service and expertise in the Financial Services category.

Regional housing

In order to address the issue of affordable housing in regional areas experiencing economic growth, HomeStart continued our involvement in a pilot project to develop 32 homes in Naracoorte as part of a joint venture between the Land Management Corporation and Empak Homes.

A project team including representatives from HomeStart, Land Management Corporation, AHIU, AHA and Planning SA is overseeing development, with construction beginning in mid to late 2006. HomeStart will provide home loan options to the eventual home owners.

Customer focus

Our Customer Relations Group (CRG) continued to provide efficient, friendly and personalised service, fielding almost 38 000 calls over the past 12 months.

The CRG was a state finalist in the 2006 Australian Telecommunications Associations Awards and received commendation for outstanding performance in the 'under 50 seat' category.

Communications & marketing

In March 2006 HomeStart launched an advertising campaign created by our newly appointed advertising agency, Martins. Featuring current HomeStart customers, the 'Smile' campaign has been rolled out across television and press commercials, as well as brochures, posters and other collateral. Our customer newsletter has also been revised in line with the new campaign.

An innovative product and clever marketing saw HomeStart named the 'Public Sector' winner at the 2005 National Awards for Marketing Excellence. The prestigious title was awarded to HomeStart for the Graduate Loan, which had earlier taken out the state marketing prize in the product category.

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 15 different languages other than English: Amharic, Arabic, Chinese, Croatian, Greek, Italian, Khmer, Persian, Polish, Serbian, Spanish, Swahili, Tagalog, Tigrigna, and Vietnamese.

Information technology

HomeStart's internet presence remains a crucial link in the customer experience. Our public website is an important focus for the distribution of information for potential customers and the general public. The most popular component of the site is our online calculators, which estimate potential borrowing capacity for enquirers – in 2005–06 they were accessed more than 132 000 times.

Enhancements to our 'ehomestart' secure site also had a positive impact, with more than 25 000 separate logins from existing customers performing loan administration tasks online over the past year.

HomeStart's move to new accommodation at Flinders Street in November 2005 provided an opportunity for the IT team to design and implement a new data and communications network that can support the organisation in achieving its strategic goals, and is better equipped to support its staff, customers and business partners.

This significant investment in new hardware and technology will enhance the current network by improving speed and stability, and also caters for future needs as the organisation enters its next phase of growth.

03

PROFILE

NAME:
Clayton, Bradley, Lauren & Sandy Werner

LOAN TYPE:
HomeStart Home Loan

HOMESTART CUSTOMER SINCE:
1990

WHAT DOES HOME OWNERSHIP MEAN TO YOU:
Instead of throwing away the money on rent, we're actually investing something in the future.

Community connection

Working with industry and government

Creating the opportunity for more South Australians to achieve home ownership in properties that suit their needs and locations that suit their lifestyle requires support and development from government and industry, underpinned by healthy and happy communities.

In 2005–06 HomeStart maintained its position as a sustainable vehicle for delivering on government policy issues, and undertook a concerted effort to encourage joint government and industry projects that support the State Housing Plan's objectives of a holistic approach to housing needs.

We also continued to expand our sponsorship program to support local communities and specific needs groups, which is a key component of our organisational charter.

Affordable housing

Tackling the issue of affordable home ownership requires a rounded approach, and HomeStart has worked closely with government and industry to devise realistic solutions.

A key issue is the availability of houses that are priced within reach of our customer group. The creation of affordable housing options is central to the State Housing Plan and one of the objectives of South Australia's Strategic Plan.

HomeStart is working co-operatively with other public sector agencies and the private sector to develop supply side responses to the issue of affordable housing. As a well established provider of housing finance, HomeStart is uniquely placed to facilitate projects that will address the issue.

During the year HomeStart collaborated on an initiative with the Pickard Group designed to test a concept for affordable housing which can be replicated across Adelaide. The initial plan for construction of ten homes at Salisbury East is currently undergoing development.

Also underway is an affordable housing collaboration with Lend Lease (Delfin) that will similarly test the concept for affordable housing which can be replicated across Adelaide. The initial plan for construction of four homes at Mawson Lakes is currently undergoing development.

The coming year will see HomeStart continue to work closely with the Affordable Housing Trust and the private sector to develop and promote affordable housing arrangements.

EquityStart

EquityStart was launched by the Minister for Housing in April 2005 as a key plank of the State Housing Plan, with the aim of providing public housing tenants with greater access to home ownership through a subsidised loan of up to $50 000, in addition to what they might normally be able to borrow with HomeStart.

The initiative is also a vehicle for leveraging public housing assets into the Affordable Housing Innovations Fund, which will support affordable housing projects and other housing initiatives for vulnerable sectors of the community.

Over the last 12 months HomeStart has undertaken targeted communication activities to promote the EquityStart initiative, particularly to tenants who may not have considered home ownership as an option.

The most effective of these activities has been the eight seminars HomeStart has convened across the state, with many of the 790 attendees expressing a strong interest in becoming home owners.

So far, the initiative has proven to be an excellent tool for assisting public housing tenants to overcome financial challenges and achieve their home ownership aspirations. HomeStart will work closely with Housing SA and the state government to maximise tenants' opportunities to become home owners over the coming year.

EquityStart Performance Indicators as at 30 June 2006	
Number of registrations of interest	7035
Number of applications	2401
Applicants proceeding to the next stage	73%
Applicants wanting to purchase public housing property	60%
Applicants wanting to purchase in the private market	21%
Number of settlements	354

Housing needs for ex-children of the Office of the Guardian for Children and Young People

The Office of the Guardian (OoG) is an independent office advocating and promoting the best interests of young people and children under the care of the Minister for Families and Communities. In recognition of the ongoing disadvantage that these people may experience, they are afforded priority access to all government services whilst they are under the guardianship and throughout the first stages of their adult lives.

In 2005–06 the OoG and HomeStart worked together to ascertain how priority access to our home loan services could be provided to their client group. In response, HomeStart:

- undertook promotion of the EquityStart program to clients living in social housing
- provided a dedicated service through the Community Lending Team
- provided a $100 loan establishment fee discount
- supported the OoG in making application for home ownership grant funding through the state government.

HomeStart will continue to consider this marginalised group through both new products and education.

Julia Farr Loan

In 2005 HomeStart began discussions with Julia Farr Services to develop a loan product suitable for their clients with an acquired brain injury, physical disability or progressive neurological disability.

The Supported Accommodation Loan was developed specifically to assist this group gain a financial asset and added security through purchasing suitable properties. Whilst the project is on hold, HomeStart was pleased to be involved with the development of this innovative product and will look to adapt the model in other circumstances where appropriate.

Minister's State Awards for Excellence in Housing

The inaugural 'Minister's State Awards for Excellence in Housing' were held on 1 May 2006 at the National Wine Centre. The awards bring together government housing agencies to recognise and reward outstanding community members in the area of social housing and home ownership. Through the 'Home Ownership Award' category, HomeStart selected six worthy recipients who have moved through the continuum of social housing into home ownership, often overcoming adverse personal and financial situations to do so.

Home ownership project with the Australian Research Centre

The Australian Research Centre has proposed a research project entitled 'Assistance into Home Ownership for Low-income Households: Impact on Life Course', to be undertaken with a representative sample of HomeStart customers.

The project seeks to gather and analyse data through quantitative and qualitative methods with regard to the impact of home ownership on low income households. Specific aims include:

- contributing to the national and international literature on how entry into home ownership affects the wellbeing of low income households with respect to their housing and other dimensions of life, such as household stability, labour force participation, mental and physical health
- developing an understanding of the differences in housing career and housing pathway between regional Australia and the population living in capital cities
- producing findings that can assist organisations such as HomeStart and policy making bodies to develop programs that better assist low-income households.

Pending funding approval at a national level, this research will commence in August 2006, with the findings published in late 2007.

Community involvement and social outcomes

Community connection

Aged care

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 2005–06, bringing the total number to 114.

SA HomeBuyers

HomeStart continued to be a major sponsor of the SA HomeBuyers information series, which provide free education seminars about many aspects of buying and building property. Presented in conjunction with other sponsors, five events were held during 2005–06 in Norwood, Marion, West Lakes and Berri.

Over the year, approximately 700 people attended the seminars, with 95% indicating that they benefited from the information, and 97% indicating that they would recommend the seminars to someone else.

Money Management Education Website

HomeStart, with the support of the South Australian Film Corporation, is developing a targeted learning website to educate potential customers about money management, including budgeting and saving skills.

The website will be an interactive tool consisting of tutorials that will incorporate the user's own circumstances, challenges, goals and budgets, with the aim of teaching realistic methods of financial management that can help them achieve their goals such as home ownership.

The project is currently at tender stage, and is scheduled to be launched in early 2007.

Women's Unit

HomeStart's Women's Unit was established in 2004 in response to an identified need amongst female home buyers and potential home buyers for professional, independent advice and support with regard to home ownership.

The objective of the Women's Unit is to deliver a range of social and commercial initiatives to identified groups of women within the community, as well as nurturing and maintaining long term relationships with our existing female customer base.

A notable achievement of the Women's Unit is the provision of free, independent advice about the home buying process through the 'By women, for women' housing seminars.

In 2005–06 seven seminars were held, with 249 women attending to hear from the female presenters about legal, financial and conveyancing issues. This brings the total number of attendees since the seminars' inception to approximately 800, resulting in at least $6 million in new lending.

The Women's Unit also developed relationships with key government and community groups dedicated to supporting women, such as The Women's Housing Association, ShelterSA and Women's Information Service, and provided training for several community housing groups.

HomeStart will continue to support this important contribution to the community over the coming year.

Migrant initiatives

HomeStart focused on assisting specific migrant groups through supporting information events, and through a migrant traineeship program which commenced in 2005. These activities include:

- representation at the English Language Services expo to provide information about home loan solutions in a variety of languages, and attendance at the Multicultural Festival held in Elder Park
- an ongoing 'Migrant Traineeship' program, which provides job skills for migrants in return for better links with their community. Sudanese migrant Arkanjelo Ring successfully completed the first traineeship in January 2006
- presentation of an information session for the Sudanese community to raise their level of awareness about home ownership. Later in the year HomeStart hosted an afternoon tea to celebrate our first Sudanese customer
- staff attending 'Working with Culturally Diverse Customers' training through the Migrant Resource Centre of South Australia to enhance understanding of particular ethnic groups' needs as customers
- participation in Federal Department of Immigration and Multicultural and Indigenous Affairs research on cultural awareness training
- consideration of special needs groups such as humanitarian migrants during the product development process for potential Shared Appreciation Loan

PROFILE

NAME:
Benjamin, Christoph & Eleonore Sommer

LOAN TYPE:
Construction

HOMESTART CUSTOMER SINCE:
2003

WHAT DOES HOME OWNERSHIP MEAN TO YOU:
It means freedom to have a pet dog for our son, freedom to hang my washing out when I want to, to do gardening when I like, to have our privacy or to have friends around.

- introduction of the 'Tailoring Loans to Skilled Migrants' policy changes and associated marketing activity, particularly through Immigration SA.

HomeStart will continue to work with migrant communities and to tailor our home loans to increase humanitarian migrants' access to affordable housing and home ownership over the coming years.

Sponsorships

HomeStart sponsors a wide variety of community events and organisations. Key sponsorship activities for 2005–06 include:

Fremont-Elizabeth High School Special Music Centre

Elizabeth is home to many HomeStart customers and the Fremont-Elizabeth City High School's Special Interest Music Centre provides the opportunity for students with musical talent to develop their potential – and have some fun.

The centre also provides meaningful and coordinated assistance to help get the best musical outcomes for students who suffer significant disadvantage in their day-to-day lives.

HomeStart's support of the centre has made it possible for 250 of the students to get new uniforms and also provided the prize for their 2005 'Outstanding Special Music Student', Jason Williams.

Kaurna Eagles Sports & Social Association – 2005 & 2006 seasons

The Kaurna Eagles Sports & Social Association is a South Australian organisation aimed specifically at supporting young Indigenous sports people. HomeStart has sponsored the Kaurna Eagles football teams in the South Australian Amateur Football League for the past two seasons and will sponsor both the junior and senior teams again in 2006.

Salisbury High School Basketball Carnival

The Students with Disabilities Basketball Carnival brings together teams from across the state to play in the tournament organised by the senior special class of Salisbury High School. HomeStart is proud to have sponsored this highly successful event for two years.

Hutt St Centre 'Angel for a day' and Portavin Touch Wine 2006

The Hutt Street Centre provides essential support services to homeless people in Adelaide.

HomeStart has pledged donations for two years to the Hutt Street Centre to provide meals and hope for people who are homeless and hungry through their 'Angel for a Day' program.

We have also committed to supporting a family fun area at the Portavin Touch Wine event, which is a day of wine, sport, food and fun organised to raise money for the 75% of people seeking care at Hutt Street Centre who have a mental illness.

Other key sponsorships

- Carers Association of South Australia
- Council on the Ageing – Every Generation Festival
- HomeStart Finance Youth Media Awards
- HomeStart 'kick start' Nova 919 promotion
- Master Builders Association
- South Australian Young Achievers Awards
- Time for Kids Inc
- UniSA Network Now.

PROFILE

NAME:
Rashidatu Kamara

LOAN TYPE:
EquityStart

HOMESTART CUSTOMER SINCE:
2005

WHAT DOES HOME OWNERSHIP MEAN TO YOU:
It is a stepping stone to my dreams, and has brought zest, excitement and responsibility in my life.

Effective and sustainable business practices

Professional people

At HomeStart, we believe that our staff are the key component of our on-going innovation and success. Their skills, loyalty and deep understanding of our customer-centric environment provide the base from which all our business activities are carried out.

We treat staff as our most valuable resource and invest in their well being and career development at every opportunity, providing support for further learning, special 'staff days' to promote team building and raise morale, fostering cross-functional project teams and encouraging communication across all levels of the business.

We encourage the development of career paths within the organisation to ensure each staff member is utilising their knowledge and expanding their skill base.

In the past year, HomeStart staff have met the demands of providing affordable home ownership opportunities while adapting to a changing operating environment. We strongly believe that it is the outstanding performance of our workforce that has continued to propel us toward our aims.

Culture

HomeStart is proud of its culture – an enviable combination of social and commercial themes with a staff group that is focused on both their own journey within the organisation and the customer's journey through home ownership.

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 steadfastly maintaining an organisation that fosters and reflects our core values.

Independent research conducted by Quantum Management in June 2006 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 these goals.

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 involvement, satisfaction and engagement
- internal service quality
- staff retention and culture.

Communication and innovation

At HomeStart, we hold regular staff meetings that build trust and understanding within our organisation. Our Chief Executive Officer, along with our Leadership Team, discusses current business developments and accepts new ideas from staff in an open and engaging fashion. We also provide regular updates to staff on the organisation's activities through an email newsletter, Debrief.

The opinions of our staff are sought at all levels of strategic and business development and they are regularly updated through face-to-face communication forums.

Opportunities for staff input were increased following staff feedback in 2005, which suggested desire for a higher level of participation. External research undertaken in 2006 indicates that staff's satisfaction with HomeStart's level of communication scored an 81% favourable result.[1]

[1] Favourable includes Strongly Agree and Agree result, > 80% Favourable is considered World's Best Practice

Organisational growth and diversification

To support the emerging 'non-consumer' segments and to continue to develop ways to increase affordable housing opportunities, a new business unit was developed, resulting in a reorganisation of HomeStart's structure.

Our new structure is focused around cross-functional teams, providing a greater opportunity for staff involvement in a broader range of projects and personal growth.

All staff had the opportunity to apply for the new and redefined roles in the structure, providing internal recruitment and career development opportunities. Having advertised all roles internally, some roles were then advertised externally, resulting in employing people from outside of the business.

Employee working environment

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

In 2005, HomeStart instituted staff involvement in shaping employment conditions by way of a cross-function committee. We consider that providing staff with the opportunity to negotiate conditions that recognise contribution, family/life balance and societal trends ultimately results in:

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

With organisational and employee support, the HomeStart Finance Enterprise Bargaining Agreement was approved by the Industrial Relations Commission in December 2005.

Staff's satisfaction with their working environment and facilities scored an 89% favourable result, a pleasing reflection of the positive outcomes of our relocation in November 2005.[2]

Flexible working arrangements

HomeStart provides staff with a range of flexible working arrangements to better manage their work and other responsibilities. From the external research undertaken, our staff's satisfaction with family/life balance achieved an 87% favourable result, while staff satisfaction with work/life balance achieved a 95% favourable result.[3]

Flexibility for staff with family or carer responsibilities has been further supported by the establishment of a Carer's Room in the second half of 2005.

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

The following flexible working arrangements are available by negotiation to HomeStart employees:	
Part-time and Job Share	Enables employees to work less than full-time. The hours are usually fixed and constant. Job Sharing is a voluntary arrangement where one full-time job is shared between two people.
Flexi-Time/Time off in Lieu	Time Off in Lieu occurs when an employee is requested to work additional hours above normal hours in response to short term needs of the business. The employee is then able to negotiate to take the additional hours worked as Time Off in Lieu.
Purchased Leave	The practice of purchasing leave enables a full-time or part-time employee to spread the cost of the leave over an agreed period by purchasing additional leave entitlements.
Working from Home	Enables an employee to work from a home based work location instead of their usual office based location.

[2 & 3] Favourable includes Strongly Agree and Agree result, > 80% Favourable is considered World's Best Practice

Number of employees using voluntary flexible working arrangements by gender

	Male	Female	**Total**
Purchased Leave	0	0	0
Flexi-Time	5	12	17
Compressed Weeks	0	0	0
Part-time Job Share	4	17	21
Working from Home	18	12	30

Investment in Staff Training	2005–06	2004–05	2003–04	2002–03	2001–02
Training expenditure as a percentage of total remuneration costs	2.42%	3.58%	4.09%	3.89%	3.44%

Learning and growth opportunities

Our commitment to continuous learning and professional staff development is driven by the belief that superior organisational performance can be achieved through creation and maintenance of a culture of learning and development. As confirmation of this, staff satisfaction with access to training and learning programs was 85% favourable and opportunities for skill improvement 89% favourable.[4]

All HomeStart employees are encouraged to participate in learning and development activities. We place a 5% benchmark result for training expenditure against total remuneration.

A total $163 885 was spent on training through a combination of further education, specific training courses, leadership and management programs, and in-house initiatives.

Each year, the Sam Walters Research Grant funds a staff member to undertake research of benefit to HomeStart. The second recipient, Darren Garbin, spent three weeks travelling to Melbourne, Brisbane, Hong Kong, Budapest and Berlin in March 2005, gaining insight into housing options for financially disadvantaged older South Australians who are unable or will be unable to afford entry to privately built and operated retirement villages.

Michael Veasey, Manager IT attended the Microsoft Worldwide Partner Conference in Boston during June 2006.

The total cost to HomeStart (including salaries) was $17 634.

Our annual 'Opening Doors' Staff day is an event organised by The People Team, a cross-functional group responsible, in conjunction with Human Resources and the Leadership group, for enhancing employee communication and social interaction. This year, 'Opening Doors' was held in June and involved staff coming together to review HomeStart's future direction, engage in team building activities and deliver a group understanding of the importance and relevance of HomeStart's culture.

To enhance our focus on learning and development, we have allocated a part-time resource to this area.

External development

Five staff are currently studying towards a Masters of Business Administration with the University of South Australia. Other staff members are undertaking studies with the University of South Australia, Flinders University and Charles Darwin University, courses including, Bachelor of Business Administration, Bachelor of Business Law, Bachelor of Behavioural Science and Bachelor of Justice and Society.

Thirteen staff graduated in a variety of courses this year. At the present time, 68% of HomeStart staff hold a qualification.

[4] Favourable includes Strongly Agree and Agree result, > 80% Favourable is considered World's Best Practice

Professional people

Effective and sustainable business practices

We congratulate those who graduated this year

Course	Staff
Graduate Diploma In Management	Judi Cheshire
Graduate Certificate In Management	Trevor Bradley; Darren Garbin
Graduate Diploma of Applied Finance and Investment	Andrew Mills
Diploma of Mortgage Lending	Belinda Jones; Stephanie Rogers; Peter Carratt; Catherine Taylor; Joanne Peden; Carla Vowles
Certificate IV in Mortgage Lending	Stephanie Dunning; Daniel Camp
Certificate ll in Business Administration	Poppy Jones

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 strive for quality performance measures, feedback and recognition strategies for all staff.

Equal employment and diversity

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 92% favourable result.[5]

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 87% favourable.[6]

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

- Migrant Traineeship: Retail Services
- 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 disability. However, we have complied with the requirements of the *Disability Discrimination Act 1992* and the *Equal Opportunity Act 1984*. HomeStart is an equal opportunity employer and we ensure that our recruitment policies and procedures are inclusive of those with a disability.

[5 & 6] Favourable includes Strongly Agree and Agree result, > 80% Favourable is considered World's Best Practice

Employee numbers, gender and status

Total Number of Employees		
Persons	87	
Full Time Equivalents	79.9	*(FTEs shown to 1 decimal place)*
Gender	**% Persons**	**% FTEs**
Male	41.4	43.6
Female	58.6	56.4
Number of Persons During the 2005–06 Financial Year		
Separated from the agency		19
Recruited to the agency		16
Number of Persons at 30 June 2006		
On Leave without Pay		1

Number of employees by salary bracket

Salary Bracket	Male	Female	Total
$0 - $40 399	6	14	20
$40 400 - $54 999	11	19	30
$55 000 - $67 999	4	8	12
$68 000 - $88 999	12	5	17
$89 000 +	3	5	8
Total	**36**	**51**	**87**

Status of employees in current position

Full Time Equivalents	Ongoing	Short-Term Contract	Long-Term Contract	Other (Casual)	Total
Male	1	3.1	30.7	0	34.8
Female	0	6.6	38.5	0	45.1
Total	**1**	**9.7**	**69.2**	**0**	**79.9**

Professional people

Effective and sustainable business practices

Persons	Ongoing	Short-Term Contract	Long-Term Contract	Other (Casual)	Total
Male	1	4	31	0	36
Female	0	9	42	0	51
Total	**1**	**13**	**73**	**0**	**87**

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**	**3**	**2**	**3**	**2**

Average day's leave taken per full time equivalent employee

Leave Type	2005–06	2004–05	2003–04	2002–03
Sick Leave	8	5.1	5.6	5.2
Family Carer's Leave	0.9	0.8	0.3	0.2
Special Leave with Pay	0.3	0.9	0.5	0.7

Number of employees by age bracket and gender

Age Bracket	Male	Female	Total	% of Total	South Australian Workforce Benchmark*
15–19	0	1	1	1.2%	7.9%
20–24	2	3	5	5.8%	10.7%
25–29	4	10	14	16.1%	9.8%
30–34	4	11	15	17.2%	10.5%
35–39	6	7	13	14.9%	11.4%
40–44	5	8	13	14.9%	12.4%
45–49	6	6	12	13.8%	12.4%
50–54	4	2	6	6.9%	10.9%
55–59	3	2	5	5.8%	8.3%
60–64	2	1	3	3.4%	4.4%
65 +	0	0	0	0.0%	1.3%
Total	**36**	**51**	**87**	**100.0%**	**100.0%**

** Benchmark as at January 2006 from ABS Supertable LM8*

Number of Aboriginal and / or Torres Strait Islander employees

	Male	Female	Total	% of Agency	Target*
Aboriginal/Torres Strait Islander	0	3	**3**	3.4%	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	6	12	**18**	20.5%	20.3%
Number of employees who speak language(s) other than English at home	3	9	**12**	13.6%	15.5%

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

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

Salary Bracket	Target 2005–06	Actual 2005–06	Target 2006–07
$0 - $40 399	-	0.2%	-
$40 400 - $54 999	-	0.6%	-
$55 000 - $67 999	-	0.3%	-
$68 000 - $88 999	-	0.8%	-
$89 000 +	-	0.5%	-
Total	**5.0%**	**2.4%**	**5.0%**

Documented individual performance development plan

Employees with	% Total Workforce
a plan reviewed within the past 12 months	93.2%
a plan older than 12 months	0.0%
no plan* 6.8%	6.8%

** All are new employees at HomeStart*

PROFILE

NAME:
Peter & Judyann Hornsblow

LOAN TYPE:
Seniors Loan

HOMESTART CUSTOMER SINCE:
2002

WHAT DOES HOME OWNERSHIP MEAN TO YOU:
It has given us peace of mind.

Sustainable financial management

Effective and sustainable business practices

Financial targets were achieved this year including an operating profit before tax of $6.7 million (2005: $6.4 million) against a budget of $6.0 million. Payments to Government amounted to $15.1 million this year and have totalled $193.7 million since HomeStart's inception.

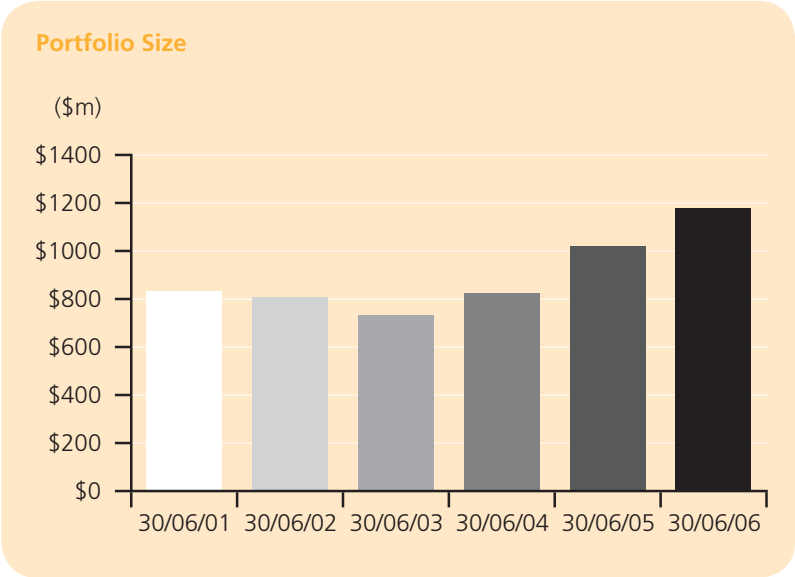
2005–06 results

These outcomes are the result of a constant focus on commercial objectives balanced with our social obligations as well as sound financial, risk and asset management policies, the growth in our lending portfolio and a stronger return on the Risk Transfer Vehicle (RTV) investments. This year the RTV returned 11.5% against a performance benchmark of 6.5%, with a total return of 8.5% since its inception six years ago.

In response to lending levels this year, our debt funding with the South Australian Government Financing Authority (SAFA) grew to $1058 million against a borrowing limit of $1350 million. HomeStart has set minimum capital levels for prudential management. Lending over the past year and a reduction of capital has seen our capital adequacy ratio reduce to 16.4% (2005: 18.7%) against the minimum requirement of 14.0%.

The lending portfolio grew by 15.8% to $1186 million this year (2005: $1024 million). Despite the continued availability of some higher risk products in response to market need, HomeStart has maintained a prudent approach to credit quality and provisioning, while utilising credit risk management systems to inform lending decisions and to allocate appropriate benchmarks for portions of the lending portfolio.

Asset and liability management



Sustainability practices are vital to our organisation so that a balance can be maintained between maximising social outcomes while continuing to meet our commercial obligations. A total of $2.2 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.

HomeStart has adopted prudential guidelines set down by the Australian Prudential Regulatory 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 the new Australian equivalents to International Financial Reporting Standards (AIFRS), allocate specific and collective provisions for impairment of our financial assets.

As noted throughout the Financial Reports, HomeStart is required to comply with Australian Equivalents to International Financial Reporting Standards (AIFRS) for the first time in its financial statements for the year ended 30 June 2006.

The most significant financial standard adopted by HomeStart under AIFRS is *AASB 139 Financial Instruments: Recognition and Measurement* (AASB 139). In fact, the implementation of AASB 139 has been a challenge for the entire finance industry, with much debate as to how to practically implement its requirements.

Amongst other things AASB 139 outlines the methods of calculating both the specific and collective provisions for impairment.

Over the past 18 months HomeStart has dedicated significant resources to determining a collective provision which complies with AASB 139 and has been assisted in this process by external expert accounting advisers.

The expert has reviewed HomeStart's proposed methodology and assisted in interpreting the requirements of AASB 139, and has confirmed that the approach used by HomeStart Finance to estimate the collective provision for impaired loans in the loan portfolio is consistent with their understanding of the requirements of the Australian Accounting Standards Board's requirements in relation to the Collective Provisioning for Impairment Losses of financial assets in their lending portfolio.

HomeStart also notes that various international financial institutions have used similar methods in calculation of collective provisions, as has been researched from recent annual reports, and has been advised that other domestic financial institutions have also adopted a similar approach.

The Auditor General has formed a different view and is of the opinion that the calculation of the collective impairment provision is not in accordance with AASB 139, and has a different opinion on the method of application of the standard.

HomeStart is of the opinion that it complies with AASB 139 as supported by its external accounting expert advisers. HomeStart believes there is objective evidence of impairment of its loan assets in that there is a historical pattern of non-collection and losses, and believes that an impairment loss should be recognised because the carrying amount of HomeStart's assets is currently greater than the present value of expected cash flows discounted at the original effective interest rate. Historical loss rates are objective evidence of impairment.

HomeStart also believes there is evidence of a loss event occurring after a loan is settled in addition to accounts which may be in arrears or in default and considers that a loss event has occurred in that there has been an observed slowing of the property market.

Our approach

HomeStart's financial management philosophy is based on best practice concepts and principles aimed at continuous improvement in how we go about meeting financial performance targets that will sustain our business activities in the long-term.

Our approach is supported by sound risk management and corporate governance practices. Our highly qualified and experienced finance team continually strives to improve process efficiency to reduce operational costs while maintaining strong internal controls. The team includes:

- treasury risk management
- corporate finance
- financial accounting
- asset & liability management
- financial forecasting and provisioning
- business reporting and analysis
- property realisation and loss recovery.

HomeStart uses the balanced scorecard method of performance measurement, which is based around key performance indicators, identified as part of the annual business planning process. This holistic view of the organisation assists the Board and management in identifying key areas of achievement, areas where corrective action is required and new opportunities for the future.

Funding

HomeStart's lending is financed from its capital base and by borrowings from the South Australian Government Financing Authority (SAFA). A global approach to treasury risk management has been adopted whereby risks are amalgamated from all activities and managed on a consolidated scheme basis taking advantage of offsetting risks.

A master document outlines all Treasury policies, processes and procedures and the limitations within which our Treasury department must operate. The document also 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 is ultimately responsible for the Treasury operations of HomeStart. The Finance Sub-Committee, a sub-committee of the Asset & Liability Committee, is responsible for developing and implementing funding strategies as well as reviewing and monitoring interest rate exposures.

Risk Transfer Vehicle

In July 2000, HomeStart established a Risk Transfer Vehicle (RTV) to minimise and quarantine credit risks and improve financial performance. It acts as a mortgage insurer to HomeStart and is a division of HomeStart managed by the Asset and Liability Committee.

Initially funded with $20 million, the RTV is now worth $39 million. It has returned 8.5% since inception and 11.5% this year. A loan provision charge is collected from loans settled as a part contribution toward write-offs. These funds are invested in various asset classes, as per the asset allocation analysis undertaken annually by HomeStart, with a view to achieving a performance benchmark of 6.5%. The Asset & Liability Committee engages actuaries to undertake an annual review of projected future loan loss levels.

Adoption of Australian equivalents to International Financial Reporting Standards

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

The AIFRS Project Team has been responsible for evaluating the new standards, identifying changes required and developing approaches and systems to ensure HomeStart's full compliance with AIFRS from 1 July 2005. During 2005–06, the project team successfully managed the transition from Australian Generally Accepted Accounting Principles (GAAP) to AIFRS.

The following key areas are where accounting policies have changed on adoption of AIFRS:

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

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

Sustainable financial management

Effective and sustainable business practices

Financial History Table

	2002	2003	2004	2005	2006
Financial Indicators					
Operating Profit ($m)	9.5	8.6	4.4	6.4	6.7
Return on Equity	7.0%	6.3%	3.2%	4.7%	4.9%
Net Interest Margin	2.1%	2.0%	1.9%	1.7%	1.3%
Subsidy Provided ($m)	1.9	1.7	2.0	2.1	2.2
Balance Sheet Strength					
Capital ($m)	137.3	138.4	136.5	136	139
Provisions ($m)	15.6	14.9	16.4	17.8	13.7
Loan Assets ($m)	761.8	726.9	818.7	1024.3	1186.2
RTV Net Assets ($m)	18.6	21.5	23.7	33.5	39.0
Net Loan Losses ($m)	0.2	0.1	0.02	0.02	0.01

Account Payment Performance

Particulars	Number of Accounts Paid	Percentage of Accounts Paid (by number)	Value in $A of Accounts Paid	Percentage of Accounts Paid (by value)
Paid by the due date	6157	97.67%	$6 976 143.03	94.98%
Paid more than thirty days from due date	147	2.33%	$368 593.90	5.02%

Financial contributions to the state government in $million
$193.7 million paid to the state government since inception

Payment Type ($m)	1995 [1]	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	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	7.3	75.8
SAFA[2] Admin Fee	0.0	0.0	0.0	0.0	0.7	0.6	0.6	0.5	0.5	0.5	0.7	0.8	4.9
Income Tax	0.0	1.5	6.3	4.2	3.0	2.4	3.0	2.1	2.5	2.6	1.4	2.0	31.0
Dividends	0.0	5.0	7.0	5.0	5.0	5.0	1.7	2.2	2.0	1.0	1.5	1.6	37.0
Capital	0.0	0.0	0.0	0.0	25.0	0.0	3.3	2.8	3.0	4.0	3.5	3.4	45.0
Total Paid	**6.1**	**16.0**	**21.9**	**16.7**	**40.2**	**13.5**	**13.6**	**12.6**	**12.6**	**12.7**	**12.7**	**15.1**	**193.7**

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

PROFILE

NAME:
Simon Richards
& Sallie Lodge

LOAN TYPE:
EquityStart

HOMESTART CUSTOMER SINCE:
2006

WHAT DOES HOME OWNERSHIP MEAN TO YOU:
It was very important to us, we were concerned if we didn't get a house when we did, we would be unable to.

Corporate governance

Effective and sustainable business practices

Corporate governance at HomeStart is demonstrated by our commitment to achieving social and financial outcomes through performance management, compliance, accountability, strong reporting and clear communication between our Minister, the HomeStart Board and our Chief Executive Officer.

Our approach to corporate governance is guided by government legislation, guidelines issued by the Department of Premier and Cabinet, the Department of Treasury and Finance's Financial Management Framework, and Australian best practice.

Board of management

HomeStart is required to have a board of seven persons. Board members who held office during the year are detailed on page 44. Board members are appointed by the Governor for a term not exceeding three years. Board members are independent of the organisation and are chosen for their experience and skills in matters related, or complimentary to, HomeStart's business.

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 and reports to keep them informed about HomeStart's operations.

The following sub-committees of the Board operate under individual charters and assist the Board in discharging particular functions. The members and attendees of these sub-committees are specifically selected for their expertise and independence.

Audit Committee

This committee is chaired by Paula Capaldo and includes two other board members. Other attendees, usually members of management and representatives of the external and internal auditors, attend meetings at the discretion of the committee.

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 chaired by Jim Kouts and includes two other board members. 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.

The Asset & Liability Committee is also responsible for managing the Risk Transfer Vehicle (RTV). The RTV is a division of HomeStart established to protect the organisation from residual mortgage default risk arising from loans written since 1 July 2000. New customers pay a loan provision charge which is invested in the RTV to protect against future potential loan losses. The committee's RTV responsibilities are to:

- 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.

Business planning, monitoring and accountability

The Board, in conjunction with Management, creates an annual Business Plan that delivers HomeStart's mission and long-term goals in alignment with government strategies and targets and the Minister's directions.

External environment factors, commercial best practice, and internal aims are taken into consideration to formulate HomeStart's major strategies and objectives into a working plan that balances performance with compliance. 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 2005–06 financial year, a personal benefit (other than a remuneration benefit included in Note 11 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 appointment and remuneration

Responsibility for executive appointments rests with the Board and details of executive remuneration are set out in Note 10 to the financial statements.

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 in work teams
- comprehensive reporting
- organisation-wide feedback on existing and emerging risks.

Strategic risk
Discussion and assessment of risks and opportunities form part of our strategic and business planning process to enable us to prioritise our goals, maximise outcomes and mitigate threats. Our planning takes into consideration our external environment, Ministerial and government objectives and internal capabilities.

Operational risk
Operational risks are those inherent in day-to-day functions of HomeStart. The RMS facilitates a comprehensive assessment, communication and monitoring framework for these risks and is available to all staff. Management regularly review risk profiles to ensure that appropriate internal controls are in place and operating effectively. Any incidents that occur are recorded in the RMS, against the relevant risk and are investigated and dealt with promptly to mitigate any recurrence. This assists future risk assessment and encourages continuous improvement and accountability.

Asset & liability risks
Treasury 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 General Manager, Treasury and Risk 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 of lending. Although our business objectives are both social and commercial, 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 on-going 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.

HomeStart's arrears have remained at historically low levels and write-offs continue to compare favourably to other organisations lending in similar markets.

Internal control and assurance
HomeStart's Board is responsible for ensuring that a robust and effective internal control system exists in order to minimise the risks inherent in our business. Internal controls are regularly reviewed through the risk management framework to ensure their adequacy and to seek areas of improvement. Executive and management are required to confirm to the Board that effective risk management, internal control and compliance practices have operated throughout the year. 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
- internal audit
- dual controls in appropriate areas
- internal policies, procedures, monitoring and reconciliation
- a strong internal culture and organisational values.

Internal and external audit
External audit is undertaken by the Auditor-General of South Australia and an Independent Audit report is provided to the Board. The report for this financial year can be found on page 98.

Internal audit functions in 2005–06 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.

Board members

Claude Long – Chair
Appointed May 2002
Mr Long is a Company Director and business consultant with over 40 years experience in the banking industry. Mr Long was formerly a General Manager of the Commonwealth Bank and has served on a number of bank policy-making committees.

Jim Kouts - Deputy Chair
Appointed November 2005
Mr Kouts is the national Corporate Affairs Manager for International Power Australia. He has wide experience across a range of industry and government sectors as a senior executive and management contractor. He is currently a Director of the Electricity Supply Industry Planning Council, the Botanic Gardens and State Herbarium, and a strategic adviser to Adelaide Airport Limited.

Estelle Bowman
Appointed June 2005
Ms Bowman is a Chartered Occupational Psychologist 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.

Paula Capaldo
Appointed December 2005
Ms Capaldo is a Chartered Accountant and a Partner with Deloitte Touche Tohmatsu. She specialises in providing businesses and Boards with advice regarding accounting, taxation, strategy, budgeting and finance. She has been a Board member of the South Australian Museum, and was Deputy President of the Australian Institute of Management - SA Board.

Sandra De Poi, BA, B Social Admin
Appointed June 2005
Ms De Poi 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.

Jay Hogan, MBA
Appointed December 2005
Mr Hogan is an urban development consultant, specialising in residential developments and urban regeneration. He has been a Chief Operating Officer with two of Australia's largest urban development companies. Mr Hogan is also a past Chairman of the South Australian Housing Trust Board, Land Management Corporation Board and a member of various other private and public sector Boards.

Board members

Lindsay Smith, LLB (Hons)
Appointed December 2005
Ms Smith is a lawyer whose practice has been conducted primarily in the areas of personal injury and family law. She is a member of the Legal Practitioners' Disciplinary Tribunal and sits on the Board of the State Opera of South Australia. She is married to a barrister and has two children, two step-children and two grandchildren.

Stephen Mann, FCA, FAICD
Board Member January 1996 to July 2005
Mr Mann 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.

Ann Darwin, PhD
Board Member August 2004 to August 2005
Ms Darwin 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.

Board attendance

Member	Board		Audit Committee		Asset & Liability Committee	
	Eligible to attend	Meetings attended	Eligible to attend	Meetings attended	Eligible to attend	Meetings attended
C Long	10	10	1	1	5	5
E Bowman	10	8	2	2	8	6
P Capaldo	5	5	3	3	-	-
A Darwin	1	1	1	1	-	-
S De Poi	10	10	1	1	8	8
J Hogan	5	3	3	1	-	-
J Kouts	7	7	1	1	7	7
S Mann	-	-	-	-	-	-
L Smith	5	5	2	2	-	-

PROFILE

NAME:
Karolina Gaspanovic

LOAN TYPE:
Graduate Loan

HOMESTART CUSTOMER SINCE:
2004

WHAT DOES HOME OWNERSHIP MEAN TO YOU:
A step towards a life-long investment, securing me financially.

Statutory information

Effective and sustainable business practices

Occupational health, safety and injury management

At HomeStart, our aim is to continuously develop strategies and programs to protect the health and safety of our employees by minimising the incidence, severity and cost of workforce injuries and diseases. Expenditure for all Occupational Health, Safety & Welfare (OHS&W) related programs for the year amounted to approximately $3700.

The OHS&W Committee reports to and abides by the directions from the Chief Executive Officer and consists of one elected Health and Safety representative, one management representative (the Responsible Officer) and six employee representatives. The committee met six times during the year to develop, promote and integrate occupational health, safety & injury management (OHS&IM) into business objectives and targets.

Statistics on 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

Our strategic occupational health, safety and injury management includes policy development and performance monitoring. Employee safety is paramount and the continuous development of strategies and programs to minimise incidents, severity and the cost of workforce injuries ensures the wellbeing and productivity of our employees. Hazard management inspections were carried out quarterly and identified risks were eliminated immediately or recorded in 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 or injuries.

Progress against WorkCover performance standards

HomeStart continues to work toward the requirements of the WorkCover Performance Standards for Self Insurers with a strong focus on training, compliance, system review and continued identification of key performance indicators.

Training

Induction training is a structured process and is provided to all new employees. Health and safety training is a continuous program for all employees and incorporates an overview of existing procedures and any new initiatives. Our commitment to job-specific training ensures our employees understand and maintain awareness 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 this year included ergonomics, responsible officer, senior first aid recertification and other training specifically related to staff safety during and after the relocation to our new premises.

Control strategies

Identified OHS&W risks are 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 Coordinator facilitates a safe work culture and a continuous focus on health, safety and legislative compliance.

Freedom of Information Act 1991 Information Summary

Policy documents

HomeStart Finance was established in September 1989 to manage the South Australian Government's home ownership programs. We are charged with the objective of developing, marketing and managing affordable home finance opportunities for South Australians.

We have the following documents available:

- Privacy Policy
- Annual Reports
- Nunga Loan brochure
- EquityStart brochure
- General HomeStart brochure.

Occupational Health, Safety & Welfare and Injury Management statistics

			2005–06	2004-05	2003-04
1	**OHS&W legislative requirements**				
	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 s35, s39 and s40 (default, improvement and prohibition notices)		Nil	Nil	Nil
2	**Injury management legislative requirements**				
	Total number of employees who participated in the rehabilitation program		1	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		1	Nil	Nil
	Number of open claims as at 30 June		2	1	2
	Percentage of workers compensation expenditure over gross annual remuneration		.03%	.05%	.04%
3	**Number of claims**				
	Number of new workers compensation claims in the financial year		2	Nil	1
	Number of fatalities, lost time injuries,	(F)	Nil	Nil	Nil
	medical treatment only	(LTI)	1	Nil	Nil
		(MTO)	1	Nil	1
	Total number of whole working days lost		3	Nil	Nil
4	**Cost of workers compensation**				
	Cost of new claims for financial year		$1176	Nil	$747
	Cost of all claims excluding lump sum payments		$2077	$1501	$1013
	Amount paid for lump sum payments	(s42)	Nil	Nil	Nil
	on the settlement of a claim	(s43)	Nil	Nil	Nil
	(under the WRC Act)	(s44)	Nil	Nil	Nil
	Total amount recovered from external sources (WRC Act s54) including from a negligent third party		Nil	Nil	Nil
	Budget allocation for workers compensation		$3500	$3000	$3000
5	**Trends**				
	Injury frequency rate for new lost-time injury/disease for each million hours worked		6	Nil	Nil
	Most frequent cause (mechanism) of injury		Occup. Overuse	Neck/ Shoulder Strain	Occup. Overuse
	Most expensive cause (mechanism) of injury		Occup. Overuse	Neck/ Shoulder Strain	Occup. Overuse
6	**Meeting the organisation's strategic targets**				
	Targets and results from the organisation's action plan are provided		Yes	Yes	Yes

Arrangements can be made to obtain copies of these documents by contacting HomeStart Finance on 08 8203 4000. Alternatively, the current Annual Report, Privacy Policy and information about our different loan products can be accessed on our website: www.homestart.com.au

Information statements

Copies of our Information Statement can be obtained, free of charge, by contacting the Freedom of Information Officer.

Access to personal information

Customers are entitled to obtain access to their personal information held by HomeStart, in accordance with the provisions of the *Freedom of Information Act 1991 (SA)* ('FOI Act'). We may deny a request for access if required, or authorised to do so under any law (including the FOI Act). A request for access to personal information must be in writing and sent to HomeStart Finance.

HomeStart will respond to requests within 30 days of receiving them. We comply with the South Australian Government's Code of Fair Information Practice. The principles in the Code are similar to the National Privacy Principles contained in the *Privacy Act*. In addition, we comply with the requirements of Part 111A of the *Privacy Act* (which regulates credit providers and credit reporting) and the Credit Reporting Code of Conduct under the Act. See our Privacy Policy for further information relating to the protection of confidential information.

Contact arrangements

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 1, 153 Flinders Street, Adelaide, South Australia 5000.

Enquiries may be directed to the Freedom of Information Officer by telephoning HomeStart on 08 8203 4027 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 effects 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 rather than formal manner. We conduct ad hoc customer surveys regarding service and product development issues and these views are considered in the development of policy.

Contractual arrangements

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

Overseas travel

Two members of HomeStart's staff made an overseas trip for business purposes during this financial year – see Professional People section page 29.

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 the opportunity to make our services accessible to all. Our internal lending guidelines provide lenders with procedures to follow when presented with an applicant who has an intellectual or physical disability so they are able to proceed with a loan application.

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.

Consultancy expenditure 2005–06

Consultant	Below $10,000	Cost
3		$5,253
Total Consultancies < $10,000		**$5,253**
Consultant	**$10,000 - $50,000**	**Cost**
	Purpose	
Ernst & Young	Australian International Financial Reporting Standards Advisory	
Executive Advisory	Strategic Advisory Service	
Judith Sellick	Team Building Development	
ICG Pty Ltd	HRMS Business Case & Procurement Phase	
Guaranda Services Pty Ltd	Business Plan Development for Nunga Home Loan	
Locher & Associates	Organisation Restructure & Human Resource Advisory	
Strategic Data Management Pty Ltd	Prototype and Visioning for Data Warehouse Management	
The Donington Group Pty Ltd	Organisation Restructure & Career Transition Advisory	
Total Consultancies $10,000 - $50,000		**$171,414**
Consultant	**Above $50,000**	**Cost**
	Purpose	
Blade Computing Pty Ltd	Housing Review and Strategic Advice	
Total Consultancies $50,001 +		**$57,200**
		$233,867

HomeStart Finance Board Members' Statement
For the Year Ended 30 June 2006

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

The financial report set out on pages 54 to 97:

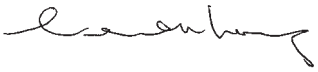
- gives a true and fair view of the financial position of HomeStart Finance as at 30 June 2006 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date; and

- provides reasonable grounds to believe that HomeStart Finance will be able to pay its debts as and when they become due and payable.

The qualification of the Audit Report by the Auditor General arises from a significant difference of opinion in regards to the application of *AASB 139 Financial Instruments: Recognition and Measurement* in regards to collective provisions.

HomeStart believes that it materially complies with AASB 139 and has the support of external expert opinion in this matter and notes that several other international and domestic financial institutions have adopted similar approaches to measurement of collective provisions for impairment.

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:



Claude Long
Chair
26 September 2006
Adelaide

Jim Kouts
Deputy Chair
26 September 2006
Adelaide

HomeStart Finance Certification of the Financial Report
For the Year Ended 30 June 2006

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 2006;

- presents fairly, in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Australian Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of HomeStart Finance as at 30 June 2006, the results of its operations 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.

The qualification of the Audit Report by the Auditor General arises from a significant difference of opinion in regards to the application of *AASB 139 Financial Instruments: Recognition and Measurement* in regards to collective provisions.

HomeStart believes that it materially complies with AASB 139 and has the support of external expert opinion in this matter, and notes that several other international and domestic financial institutions have adopted similar approaches to measurement of collective provisions for impairment.

Gary Storkey
Chief Executive Officer
27 September 2006

John Comley
General Manager Corporate Services
& Chief Financial Officer
27 September 2006

Income Statement

Financial Statements For the Year Ended 30 June 2006

	Note No.	2006 $'000	2005 $'000
Interest revenue	5	77,061	65,418
Borrowing costs	5	(55,305)	(43,829)
Net interest revenue	**5**	**21,756**	**21,589**
Other revenue	6	12,343	8,819
Net gain from disposal of assets	7	2	3
Bad and doubtful debts expense	8	(2,825)	(1,454)
Government guarantee fee	9	(7,404)	(6,155)
Loan manager fees		(4,770)	(5,530)
Employee expenses	10	(6, 999)	(6,050)
Depreciation and amortisation expense	13	(364)	(409)
Other expenses	15	(4,995)	(4,384)
Profit from continuing operations before income tax equivalents expense		**6,744**	**6,429**
Income tax equivalent expense	2.5	(2,023)	(1,929)
Profit for the year	**28**	**4,721**	**4,500**
Profit attributable to the SA Government as owner		**4,721**	**4,500**

The above Income Statement is to be read in conjunction with the accompanying notes.

Balance Sheet

Financial Statements For the Year Ended 30 June 2006

	Note No.	2006 $'000	2005 $'000
Assets			
Cash and cash equivalents	32	486	1,290
Investments	17	38,591	32,930
Derivative financial instruments	29.2	936	-
Loans and advances	18	1,161,086	1,006,194
Property, plant and equipment	19	2,585	803
Intangible assets	20	35	54
Other assets	21	1,987	384
Total assets		**1,205,706**	**1,041,655**
Liabilities			
Payables	22	4,060	3,648
Short term borrowings	23	58,900	154,754
Long term borrowings	23	999,500	745,000
Employee benefits	24	881	887
Income tax payable	26	1,119	1,108
Other liabilities	27	2,273	268
Total liabilities		**1,066,733**	**905,665**
Net assets		**138,973**	**135,990**
Equity			
Reserves	28	8,419	-
Retained earnings	28	130,554	135,990
Total equity		**138,973**	**135,990**
Commitments for expenditure	30		
Contingent liabilities	31		

The above Balance Sheet is to be read in conjunction with the accompanying notes.

Statement of Changes in Equity

Financial Statements For the Year Ended 30 June 2006

	Note No.	2006 $'000	2005 $'000
Total equity at the beginning of the financial year		135,990	136,490
Adjustment on adoption of AASB 132 and AASB 139, net of tax where applicable, to:			
Retained earnings	28,34	(3,306)	-
Reserves	28,34	5,633	-
Cash flow hedges		(332)	-
Adjusted opening balance		**137,985**	**136,490**
Derivative income recognised directly in equity	28	1,267	-
Profit for the period after tax		4,721	4,500
Transactions with State Government as owner			
Dividend paid		(1,558)	(1,485)
Capital Repatriation		(3,442)	(3,515)
All changes in equity are attributable to the SA Government as owner		**988**	**(500)**
Total equity at the end of the financial year		**138,973**	**135,990**

The above Statement of Changes in Equity is to be read in conjunction with the accompanying notes.

Cash Flow Statement

Financial Statements For the Year Ended 30 June 2006

	Note No.	2006 $'000	2005 $'000
Cash flows from operating activities			
Cash inflows			
Interest received on:			
Cash		80	90
Investments		515	714
Loans and advances		81,558	65,259
Fees and commissions received		1,775	1,041
Bad debts recovered		127	153
EquityStart grant received		4,245	-
Other		-	12
Total cash inflows from operating activities		**88,300**	**67,269**
Cash outflows			
Payments to employees		(7,010)	(5,737)
Payments to suppliers		(4,950)	(4,624)
Payments to loan managers		(5,639)	(5,494)
Borrowing costs paid		(54,903)	(43,781)
Government guarantee fee paid		(7,300)	(5,614)
Income tax equivalents paid		(2,012)	(1,441)
Repayment of grant		-	(18)
Other		(28)	-
Total cash outflows from operating activities		**(81,842)**	**(66,709)**
Net cash from operating activities	**32.2**	**6,458**	**560**

Cash Flow Statement

	Note No.	2006 $'000	2005 $'000
Cash flows from investing activities			
Cash inflows			
Proceeds from sale of office and computer equipment		24	11
Proceeds from maturity of bank bills		12,955	485
Customer loans repaid		216,926	184,707
Total cash inflows from investing activities		**229,905**	**185,203**
Cash outflows			
Payments for property, plant and equipment		(2,007)	(634)
Payments for software		(13)	-
Payments for investments		(15,231)	(3,526)
Customer loans settled		(373,563)	(385,961)
Total cash outflows from investing activities		**(390,814)**	**(390,121)**
Net cash from investing activities		**(160,909)**	**(204,918)**
Cash flows from financing activities			
Cash inflows			
Proceeds from borrowings		533,500	1,182,800
Total cash inflows from financing activities		**533,500**	**1,182,800**
Cash outflows			
Dividends paid		(1,558)	(1,485)
Repayment of borrowings		(375,371)	(974,021)
Repayment of capital		(3,442)	(3,515)
Total cash outflows from financing activities		**(380,371)**	**(979,021)**
Net cash from financing activities		**153,129**	**203,779**
Net decrease in cash and cash equivalents		**(1,322)**	**(579)**
Cash and cash equivalents at the beginning of the financial year		1,290	1,869
Cash and cash equivalents at the end of the financial year	**32.1**	**(32)**	**1,290**

The above Cash Flow Statement is to be read in conjunction with the accompanying notes.

Notes to the Financial Statements

Financial Statements For the Year Ended 30 June 2006

NOTE 1 Objectives of HomeStart Finance

The role of HomeStart Finance is to expand affordable housing options for South Australians.

HomeStart Loan

HomeStart provides home loans to lower income households and other needs groups with repayments linked to income and The Consumer Price Index (CPI). The HomeStart Loan is the principal loan product. The outstanding value of HomeStart Loans at 30 June 2006 was $1,130.6 million ($988.1 million, 2005).

Subsidies

HomeStart provides subsidised Advantage loans of up to $26,500 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 2006 was $41.0 million ($36.3 million, 2005).

In providing these loans HomeStart incurred a direct cost of subsidy estimated to be $2.2 million on the funds lent ($2.1 million, 2005). HomeStart does not receive any funding with respect to this subsidy. Taking account of the net impact of accounting for Advantage Loans at fair value results in a cost to HomeStart of $2.7 million.

HomeStart also provides subsidised EquityStart Loans of up to $50,000 to current public housing tenants. Regular repayments on the EquityStart loan are optional, and payment can be deferred and paid at the end of the loan period. The outstanding value of EquityStart Loans at 30 June 2006 was $14.6 million ($0.1 million, 2005).

The EquityStart Loan incurs interest at a subsidised rate, which is linked to the CPI.

HomeStart received grant funding from the Department for Families and Communities, to compensate HomeStart for fair value losses incurred on subsidised EquityStart loans, in addition to reimbursing HomeStart for the administration expenses incurred by administering the EquityStart Loan programme.

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

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Statement of compliance

This financial report is a general purpose financial report which has been prepared in accordance with applicable Australian Accounting Standards (AASB), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations, Treasurer's Instructions and Accounting Policy Statements (APS) promulgated under the provisions of the *Public Finance and Audit Act 1987 (PFAA)*.

International Financial Reporting Standards (IFRS) form the basis of the Australian Accounting Standards, and for the purpose of this report are called Australian equivalents to IFRS (AIFRS), to distinguish from previous Australian GAAP (AGAAP). The financial statements of HomeStart comply with IFRSs.

These financial statements are the first HomeStart financial statements to be prepared in accordance with AIFRSs. AASB 1 *First–Time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Reconciliations explaining the effects of the transition from previous reported AGAAP to AIFRSs on HomeStart's financial position, financial performance and cash flows are detailed in note 34.

2.2 Basis of preparation

2.2.1 Transition to AIFRS

Financial statements of HomeStart until 30 June 2005 were prepared in accordance with previous Australian Accounting Standards and UIG Abstracts, referred to collectively as AGAAP. Previous AGAAP differs in certain respects from AIFRS. When preparing HomeStart's 2006 financial statements, HomeStart has amended certain accounting and valuation methods applied in the AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of the year ended 30 June 2005 were restated to reflect the application of AIFRSs for that financial year. HomeStart has taken the exemption under AASB 1 to only apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005.

The financial report is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments classified as available-for-sale and subsidised loans and advances.

Revenue and expenses have been classified according to their nature in accordance with Accounting Policy Framework II *General Purpose Financial Reporting Framework paragraph APS 3.5* and have not been offset unless required or permitted by a specific accounting standard.

2.2.2 Issued standards not early adopted

Australian Accounting Standards that have been amended and available for early adoption but have not been adopted by HomeStart for the year ending 30 June 2006 are detailed below. The table below outlines each of these amended standards and the expected change in accounting policy when applied if any.

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for HomeStart
2005-10	AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time adoption of AIFRS*	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
New standard	AASB 7 Financial Instruments: Disclosures	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007

* Application date is for the annual reporting periods beginning on or after the date shown in the above table. The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results of HomeStart as the standard and the amendment are concerned only with disclosures.

The following amendments are not applicable to HomeStart and therefore have no impact.

AASB Amendment	Affected Standard(s)
2005-2	AASB 1023 *General Insurance Contracts*
2005-3	AASB 119 *Employee Benefits – allowance for taxes in defined benefit plans*
2005-4	AASB 1023 *General Insurance Contracts and AASB 1028 Life Insurance Contracts*
2005-6	AASB 3 *Business Combinations*
2005-7	AASB 134 *Interim Financial Reporting*
2005-9	AASB 4 *Insurance Contracts* and AASB 1023 *General Insurance Contracts*
2005-12	AASB 1038 *Life Insurance Contracts* and AASB 1023 *General Insurance Contracts*
2005-13	AAS 25 *Financial Reporting by Superannuation Plans*
2006-1	AASB 121 *The Effects of Changes in Foreign Exchange Rates*
2006-2	AASB 1 *First-Time Adoption of AIFRS*

2.2.3 Estimates and assumptions

The preparation of a financial report in conformity with Australian Accounting Standards requires HomeStart to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by HomeStart in the application of Australian Accounting Standards that have a significant effect on the financial report, and estimates with a significant risk of material adjustment in the next year, are discussed in note 14.

With the exception of those relating to financial instruments, the accounting policies set out below have been applied consistently to all periods presented in the financial report, and in preparing an opening AIFRS Balance Sheet at 1 July 2004 for the purposes of the transition to AIFRS.

2.3 Comparative figures

The presentation and classification of items in the financial report are consistent with prior periods except where a specific Accounting Policy Statement or Australian Accounting Standard have required a change. Where permitted by a specific Accounting Policy Statement or Australian Accounting Standard comparative information has been reclassified and disclosed where required.

Where it has been impractical to reclassify comparative amounts, the reason for not reclassifying the amount and the nature of the adjustment has been disclosed.

Note 34 provides a detailed analysis of comparative amounts that have been reclassified as a result of the adoption of AIFRS.

2.4 Rounding

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

2.5 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 of 30% (30%, 2005) be applied to profit from continuing operations before income tax equivalents.

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

Income, expenses and assets are recognised net of the amount of GST except where:

- The amount of GST incurred by HomeStart as a purchaser, that is not recoverable from the Australian Taxation Office (ATO)
- 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 Balance Sheet.

Cash flows are included in the Cash Flow Statement 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.

2.6 Revenue

Income is recognised in HomeStart's Income Statement when and only when it is probable that the flow of economic benefits to the entity will occur and can be reliably measured.

Income has been classified according to its nature in accordance with Accounting Policy Framework II *General Purpose Financial Reporting Framework* paragraph APS 3.5 and has not been offset unless required or permitted by a specific accounting standard.

In accordance with Accounting Policy Framework II *General Purpose Financial Reporting Framework* paragraphs 4.1 and 4.2 the financial report's notes disclose income, expenses, financial assets and financial liabilities where the counterparty/transaction is with an entity within the SA Government as at the reporting date, classified according to their nature.

2.6.1 Interest income – non subsidised loans
Interest income is recognised as it accrues, except for impaired loans where interest income is recognised as it is recovered (as described in note 2.6.3).

2.6.2 Interest income – subsidised loans
From 1 July 2004 to 30 June 2005

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

From 1 July 2005 to 30 June 2006

Where HomeStart provides subsidised loans, such as Advantage loans and EquityStart 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 Income Statement, 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 income on these subsidised loans is brought to account using the effective interest method at a risk-free rate of interest, based on 4 year (for Advantage loans) and 10 year (for EquityStart loans) SAFA Bonds.

2.6.3 Interest income – both non subsidised and subsidised non accrual loans
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 brought to 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.

2.6.4 Loan origination fees received or receivable
From 1 July 2004 to 30 June 2005

Income directly attributable to the origination of loans is recognised in the Income Statement when received or receivable.

From 1 July 2005 to 30 June 2006

Income directly attributable to the origination of loans is deferred and recognised in the Income Statement as part of the effective interest rate calculation. This method results in origination income being recognised over the five year average life of loans in the portfolio.

The average life and interest recognition pattern of loans in the originated loan portfolio is reviewed annually to ensure the amortisation methodology is appropriate.

2.6.5 Government grants
Grants from the Government of South Australia are recognised at their fair value where there is a reasonable assurance that the grant will be received and HomeStart will comply with all attached conditions.

HomeStart receives grant funds from the Department for Families and Communities, to compensate HomeStart for fair value losses incurred on subsidised EquityStart loans, in addition to reimbursing HomeStart for the administration expenses incurred by administering the EquityStart loan programme.

Government grants relating to costs are deferred and recognised in the Income Statement over the period necessary to match them with the costs that they are intended to compensate.

2.6.6 Investment income
Changes in fair value of investments (both realised and unrealised) are recognised in the Income Statement as they occur.

2.6.7 Disposal of non financial assets
Income from disposal of non financial assets is recognised when control of the asset has passed to the buyer and determined by comparing proceeds with carrying amount. The gains or losses arising from disposal of non-financial assets are recognised on a net basis as revenue or an expense.

2.6.8 Other income
Other income is recognised when earned or recovered and is measured at the fair value of the consideration received or receivable.

2.7 Expenses

Expenses are recognised in HomeStart's Income Statement when and only when it is probable that the flow of economic benefits from the entity will occur and can be reliably measured.

Expenses have been classified according to their nature in accordance with Accounting Policy Framework II *General Purpose Financial Reporting Framework* paragraph APS 3.5 and have not been offset unless required or permitted by a specific accounting standard.

2.7.1 Borrowing costs

Interest payable is expensed in accordance with the accounting policy described at note 2.14.

2.7.2 Government Guarantee Fee

The Government Guarantee Fee is expensed as it becomes due at the rate imposed by the Department of Treasury and Finance.

2.7.3 Bad and doubtful debts expense

Bad and doubtful debts are expensed in accordance with the accounting policy described in note 2.11.

2.7.4 Loan origination fees paid or payable

From 1 July 2004 to 30 June 2005

Fees directly attributable to the origination of loans are recognised in the Income Statement when paid or payable.

From 1 July 2005 to 30 June 2006

Fees directly attributable to the origination of loans are deferred and recognised in the Income Statement as part of the effective interest rate calculation. This method results in origination fees being expensed over the five year average life of loans in the portfolio.

The average life and interest recognition pattern of loans in the originated loan portfolio is reviewed annually to ensure the amortisation methodology is appropriate.

2.7.5 Employee expenses

Employee expenses are recognised in accordance with the accounting policy described at note 2.19.

2.7.6 Depreciation and amortisation expense

Depreciation and amortisation expense is recognised in accordance with the accounting policy described at note 2.15.4.

2.7.7 Operating lease expense

Operating lease payments are charged to the Income Statement on a basis which is representative of the pattern of benefits derived from the leased assets.

The aggregate benefit of lease incentives received by HomeStart in respect of operating leases has been recorded as a reduction of rental expense over the lease term, on a straight line basis.

2.7.8 Tax equivalents expense

The tax equivalents expense is recognised in accordance with the accounting policy described at note 2.5.

2.8 Assets and liabilities

Assets and liabilities are classified in the Balance Sheet by their nature and in an order that reflects their relative liquidity. Current and non-current classes are not presented separately.

2.9 Cash and cash equivalents

Cash and cash equivalents comprise 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.

2.10 Financial instruments

During the current and comparative financial years HomeStart had the following types of financial instruments:

- Cash and cash equivalents (refer to accounting policy note 2.9)
- Investments (including bank bills, listed equities and properties funds, SAFA Cash Enhanced Fund and SAFA composite bond index investment – refer to accounting policy note 2.12)
- Derivative financial instruments (refer to accounting policy note 2.13)
- Loans and advances (refer to accounting policy note 2.11) and
- Financial liabilities (refer to accounting policy note 2.14).

2.10.1 From 1 July 2004 to 30 June 2005

HomeStart has applied previous AGAAP in the comparative information on financial instruments. As detailed in Note 2.2, HomeStart has elected to adopt the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005.

Under AGAAP, measurement of financial instruments is as follows:

Investments

Investments in bank bills are recognised in the financial statements at the lower of cost (adjusted for premium or discount) or recoverable amount.

All other investments are reflected in the financial statements at their market value each balance date, which approximates fair value.

Reference should be made to accounting policy note 2.12 for additional information in relation to investments.

Derivative financial instruments

Derivative financial instruments are not recognised on the balance sheet. Reference should be made to accounting policy note 2.13 for additional information in relation to derivative financial instruments.

Loans and advances

Loans and advances (both non-subsidised and subsidised) are reflected in the financial statements at their face value less assessed provisions for impairment. Reference should be made to accounting policy note 2.11 for additional information in relation to loans and advances.

Financial liabilities

Financial 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.

2.10.2 Adjustments on transition date: 1 July 2005

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are described below. At the date of transition (1 July 2005) changes to carrying amounts were taken to retained earnings or reserves.

Subsidised loans and advances

Subsidised loans and advances are required to be recognised initially at their fair value. For subsidised loans this is less than their face value. On settlement of these loans an initial loss is recognised as an expense, being the difference between the face and fair value, which is then recognised as income over the expected life of the loan, using the effective interest method. For further information reference should be made to accounting policy note 2.6.

Derivative financial instruments

Derivative financial instruments are initially recognised at cost and subsequent to initial recognition are stated at fair value. Changes in fair value are taken to an equity reserve.

For further information concerning the adjustments on transition date reference should be made to note 34 *Explanation of transition to AIFRSs*.

2.10.3 From 1 July 2005 to 30 June 2006

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

- loans and receivables – initially measured at fair value and then at amortised cost using the effective interest method,
- held-to-maturity financial assets – measured at amortised cost,
- financial instruments designated as at fair value through profit or loss – measured at fair value,
- available for sale financial assets – measured at fair value,
- financial liabilities (not at fair value through profit or loss) - measured at amortised cost.

The classification depends on the purpose for which the financial instruments were acquired.

Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that HomeStart has the positive intention and ability to hold to maturity.

HomeStart has designated its investments in bank bills as held-to-maturity financial assets.

Financial assets at fair value through profit or loss

A financial asset is classified in this category if so designated by HomeStart. HomeStart's policy is to designate a financial asset at fair value through profit or loss if it is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investments strategy, and information about the financial asset is provided internally on that basis to HomeStart's key management personnel.

Derivatives are also categorised as financial assets at fair value through profit or loss unless they are designated as hedges.

HomeStart has designated its investments in listed equities and properties funds, the SAFA Cash Enhanced Fund and the SAFA composite bond index investment as financial assets at fair value through profit or loss.

Available for sale financial assets

Available for sale financial assets, are non-derivatives that are either designated in this category or not classified in any of the other categories.

HomeStart does not have any available for sale financial assets.

Financial liabilities

HomeStart's short term and long term borrowings are financial liabilities.

Impairment

HomeStart assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired.

The recoverable amount of HomeStart's investments in held-to-maturity securities and loans and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets).

An impairment loss in respect of held-to-maturity securities or loans and receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Reference should be made to accounting policy note 2.11 for additional information in relation to the assessment of impairment of loans and receivables.

2.11 Loans and advances

2.11.1 From 1 July 2004 to 30 June 2005

HomeStart has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. HomeStart has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

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 was assessed by specific identification in relation to individual loans and by estimation of expected losses in relation to portfolios where specific identification is impracticable. The following describes HomeStart's accounting policies in relation to specific and general provisions as well as the recognition of bad and doubtful debts.

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 averaged 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 HomeStart 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 Income Statement.

2.11.2 From 1 July 2005 to 30 June 2006

From 1 July 2005 loans and advances are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest rate method and taking account of principal repayments and impairment losses.

For subsidised loans fair value is less than their face value. On settlement of subsidised loans an initial loss is recognised as an expense, being the difference between the face and fair value, which is then recognised as income over the expected life of the loan, using the effective interest rate method.

Effective interest rate

The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the loan or advance to the net carrying amount of the loan or advance. When estimating the future cash flows HomeStart considers all contractual terms of the loan or advance excluding any future credit losses. Included in this calculation are all fees paid or received that are integral to the contract.

Provision for impairment

All loans are continuously reviewed by HomeStart to assess whether there is any objective evidence that a loss event has occurred.

Loans and advances are individually assessed for impairment.

Loans and advances for which no objective evidence of impairment exists on individual assessment are placed into portfolios of assets with similar risk profiles and a collective assessment of impairment is performed. Impairment testing is based on historical loss data and current available information for assets with similar risk characteristics, and the appropriate collective provision is raised.

The impairment provision is determined by specific identification and by estimation of expected losses in relation to loan portfolios where specific identification is impractical, based on objective evidence from historical impairment experience for these portfolios.

Impairment loss is measured as the difference between the loan's carrying amount and the value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate.

Impairment losses are recognised in the Income Statement.

In addition, a general reserve for credit losses is maintained to cover risks inherent in the loan portfolios. This reserve represents the difference between the impairment provisions calculated under AIFRS and that determined under the previous accounting policy, net of income tax equivalents. Movements in the general reserve for credit losses are recognised as a transfer of retained earnings.

Bad debts

All bad debts are written off in the period in which they are classified as not recoverable. 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 Income Statement.

2.11.3 Collective Provision for Impairment - First Time Adoption Issues.

The most significant financial standard adopted by HomeStart under AIFRS is *AASB 139 Financial Instruments: Recognition and Measurement*. The implementation of AASB 139 has been a challenge for the finance industry, with much debate as to how to practically implement its requirements.

Over the past 18 months HomeStart has dedicated resources to establish a basis for determining a collective provision which complies with AASB 139 and has been assisted in the process by an external expert accounting adviser.

The expert conducted a high level assessment of HomeStart's compliance with AASB 139, and concluded that HomeStart's collective provision is generally consistent with the requirements of the Australian Accounting Standards Board's requirement in relation to Collective Provisioning for Impairment Losses of financial assets in HomeStart's lending portfolio. The expert advised that their high level assessment did not constitute either an audit in accordance with Australian Auditing Standards or a review in accordance with Australian Auditing Standards applicable to review engagements. Further, the expert did not express any assurance regarding the approach adopted by HomeStart to perform its collective provisioning of impaired loans.

To determine collective provision balances at the AIFRS transition date and at reporting date, HomeStart has developed a model that projects losses using historical loss experience as determined by independent actuarial analysis. Loans are grouped by year of origination and expected loss rates are adjusted for the varying risk characteristics of the loan groups based on original loan to valuation ratio (LVR) and region (metropolitan or country).

Expected losses are then determined using the condition of the residential property market. Projected loss incidence is adjusted by a factor to reflect the past loss experience at similar points in the property cycle. Projected cash flows are discounted at the weighted average effective interest rate in accordance with AASB 139 to determine the collective provision.

HomeStart has collectively evaluated its loans for impairment by estimating the future discounted cash flows from these assets based on objective historical loss experience for assets with similar credit risk characteristics

Objective evidence

Actuarially-determined loss rates which have been adjusted for actual experience and increases in risk within the portfolio are objective evidence that HomeStart's portfolio is impaired. There are specific demographic and loan risk factors that historically provide evidence of impairment within the portfolio.

HomeStart has utilised a significant amount of data and experience to analyse its loss history over time in different economic conditions. This is our objective evidence.

Losses incurred but not identified

The nature of lending involves some degree of uncertainty about collectibility of loans. Based on available information, it is probable that HomeStart will be unable to collect all amounts due and, therefore, it is probable that an asset has been impaired.

HomeStart uses actuarial advice based on actual loss history to determine that it is probable that an asset is impaired. AASB 139 supports the recognition of losses which have been incurred but not identified.

2.12 Investments

2.12.1 From 1 July 2004 to 30 June 2005

HomeStart has taken the exemption available under AASB1 to apply AASB 132 and AASB 139 from 1 July 2005. HomeStart has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

Investments in bank bills 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.

All other investments are reflected in the financial statements at their market value each balance date, which approximates fair value. The gains or losses from changes in market value during the year, whether realised or unrealised, are included in the Income Statement.

2.12.2 From 1 July 2005 to 30 June 2006

Held-to-maturity investments

HomeStart has designated its investments in bank bills as held-to-maturity financial assets.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity where HomeStart has the positive intention and ability to hold to maturity.

Investments that are intended to be held to maturity are stated at amortised cost using the effective interest rate method less impairment losses.

Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity.

For investments carried at amortised cost, gains and losses are recognised in the Income Statement when the investments are derecognised or impaired.

Investments at fair value through profit or loss

HomeStart has designated its investments in listed equities and properties funds, the SAFA Cash Enhanced Fund and the SAFA composite bond index investment as financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss are carried at fair value. Gains or losses arising from changes in fair value are presented in the Income Statement in the period in which they arise.

2.13 Derivative financial instruments

HomeStart is exposed to changes in interest rates arising from financing activities, and it uses forward rate agreements, interest rate swap agreements and futures contracts to hedge this risk. Derivative financial instruments are not held for speculative purposes.

2.13.1 From 1 July 2004 to 30 June 2005
HomeStart has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. HomeStart has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

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 Income Statement as an adjustment to interest expense during the period.

2.13.2 From 1 July 2005 to 30 June 2006
HomeStart does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments (refer below).

Derivative financial instruments are initially recognised at cost and subsequent to initial recognition are stated at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The fair value of interest rate swaps is the estimated amount that HomeStart would receive or pay to terminate the swap at the balance date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

HomeStart designates certain derivatives as either (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges) (refer below).

For the current reporting and comparative periods HomeStart has only cash flow hedges.

HomeStart documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The entity also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items. The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 29.2. Movements in the derivatives valuation reserve in equity are shown in note 28.

2.13.3 Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised directly in equity in the derivatives valuation reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement.

Effectiveness tests are performed on all derivative financial instruments to determine if they are still providing the protection originally intended when entered into by HomeStart. Where a derivative financial instrument that was previously considered to be effective no longer satisfies the effectiveness test criteria, any gain or loss on the instrument previously recognised in equity is reversed through the Income Statement with all subsequent gains or losses recognised through the Income Statement.

2.14 Interest-bearing borrowings

2.14.1 From 1 July 2004 to 30 June 2005
HomeStart has taken the exemption available under AASB1 to apply AASB132 and AASB139 from 1 July 2005. HomeStart has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB132 and AASB139. 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.

2.14.2 From 1 July 2005 to 30 June 2006
Interest-bearing borrowings are initially recognised at fair value, net of transaction costs incurred. Interest-bearing borrowings are subsequently stated at amortised cost with any difference between the interest-bearing cost and the redemption value being recognised in the Income Statement over the period of the borrowings on the effective interest rate basis.

2.15 Non financial assets

2.15.1 Property, plant and equipment
Assets are recorded at cost or at the value of any liabilities assumed, plus any incidental cost involved with the acquisition, less accumulated depreciation (see Note 2.17) and impairment losses. Where assets are acquired at no value, or minimal value, they are recorded at their fair value in the Balance Sheet. If however, the assets are acquired at no or nominal value as part of a restructuring of administrative arrangements, then the assets are recorded at the value recorded by the transferor prior to transfer.

At the expiration of the lease of its office accommodation, HomeStart is required by the lease agreement to return the premises to its original condition ("make good"). The costs involved in doing so have been included in the cost of HomeStart's leasehold improvements. This amount has been calculated as an estimate of future costs and discounted to a present value.

HomeStart capitalises all non-current tangible assets with a value of $500 or greater in accordance with Accounting Policy Framework III *Asset Accounting Framework* paragraph APS 2.16 and APS 7.2.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

2.15.2 Intangible assets
An intangible asset is an identifiable non-monetary asset without physical substance. Intangible assets are recorded at cost less accumulated amortisation (refer to note 2.15.4).

The acquisition or internal development of software is capitalised when the expenditure meets the definition and recognition criteria of an intangible asset outlined in AASB 138 Intangible Assets, and when the amount of expenditure is greater than or equal to $500, in accordance with Accounting Policy Framework III *Asset Accounting Framework* paragraph APS 2.16.

Software assets that are not integral to the operation of hardware are recognised as intangible assets with a finite life. Capitalised software is amortised over the finite life of the asset, with a maximum time limit for amortisation of four 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.

2.15.3 Impairment and revaluation
In accordance with Accounting Policy Framework III *Asset Accounting Framework*:

- all tangible assets are valued at written down current cost (a proxy for fair value); and
- 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 HomeStart considers that the carrying amount of an asset materially differs from its fair value, then the asset will be revalued regardless of when the last valuation took place.

All tangible and intangible assets are tested for indication of impairment at each reporting date. Where there is an indication of impairment, the recoverable amount is estimated.

An impairment loss is recognised whenever the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses are recognised in the Income Statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Reversals of impairment

Impairment losses are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.15.4 Depreciation and amortisation of non financial assets
All non financial 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 such as software, while depreciation is applied to physical assets such as 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.

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

Class of asset	Depreciation method	Useful life (Years)
Leasehold improvements	Straight line	10
Other office and computer equipment	Straight line	5–10

2.16 Payables

Payables include creditors, accrued expenses, 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 payables are measured at their nominal amount and are normally settled within 30 days from the date the invoice is first received in accordance with Treasurer's Instruction 11 *Payment of Creditors' Accounts*.

2.17 Employee benefits

2.17.1 Long-term service benefits
Long term employee benefits are measured at present value. HomeStart's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

The liability for long service leave is recognised after an employee has completed 7 years of service in accordance with Accounting Policy Framework IV *Financial Asset and Liability Framework*. An actuarial assessment of Long Service Leave undertaken by the Department of Treasury and Finance based on a significant sample of employees throughout the South Australian public sector determined that the liability measured using the short-hand method was not materially different from the liability measured using the present value of expected future payments. This calculation is consistent with HomeStart's experience of employee retention and leave taken.

2.17.2 Wages, salaries, annual leave and sick leave
Liabilities for employee benefits for salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration salary rates that HomeStart expects to pay as at reporting date including related on-costs.

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 the reporting date. The annual leave liability is expected to be payable within 12 months and is measured at the undiscounted amount expected to be paid. In the unusual event where salary and wages and annual leave are payable later than 12 months, the liability will be measured at present value.

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 several State Government and externally managed superannuation schemes. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the respective superannuation schemes. The only liability outstanding at balance date relates to any contributions due but not yet paid to the South Australian Superannuation Board and various externally managed superannuation schemes.

2.18 Insurance

HomeStart 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 Accounting judgements, estimates and assumptions

In the process of applying HomeStart's accounting policies, management has made judgements, apart from those involving estimations, which have had an impact on the amounts recognised in the financial statements. No judgements have been determined to be individually significant.

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual financial reporting period are discussed below:

2.19.1 Impairment of loans and advances
HomeStart determines whether loans are impaired on an ongoing basis. This requires an estimation of the value of the future cash flows. HomeStart's policy for calculation of loan impairment is disclosed in Note 2.11.

2.19.2 Fair value of subsidised loans and advances
From 1 July 2005, when HomeStart provides subsidised loans, such as the Advantage loans and EquityStart loans, at rates lower than market interest rates, the initial recognition of these loans at fair value results in an initial loss being generated in the Income Statement. This treatment resulted in an initial loss of $4.8 million being charged to retained earnings at 1 July 2005, being the difference between the amount advanced and the fair value (refer to Note 34). Fair value is measured by discounting the expected cash flows using a market interest rate. This requires an estimation of the value of the future cash flows. HomeStart's policy for calculation of the fair value of subsidised loans is disclosed in Note 2.6.

NOTE 3 Government / non-government disclosures

In accordance with Accounting Policy Framework II *General Purpose Financial Reporting*, Accounting Policy Statement 4.1 *Notes to the General Purpose Financial Report*, 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 the notes 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

Interest received/receivable from entities external to the SA Government	**2006 $'000**	**2005 $'000**
Loans and advances	80,391	65,345
Subsidised loans effective interest income (1)	2,110	-
Subsidised loans fair value expense (1)	(5,486)	-
Deposits with banks	46	73
Total interest received/receivable from entities external to the SA Government	**77,061**	**65,418**
Interest paid/payable to entities within the SA Government		
Borrowings from SAFA	55,305	43,829
Total interest paid/payable to entities within the SA Government	**55,305**	**43,829**
Net interest revenue	**21,756**	**21,589**

(1) Subsidised loans fair value adjustment
Loans and advances are required to be recognised initially at their fair value plus transaction costs that are directly attributable to the acquisition of the asset, which for subsidised loans is less than their face value. On settlement of these loans, an initial loss is recognised as an expense, being the difference between the face and fair value, which is then recognised as income over the expected loan life, using the effective interest method described in note 2.6.

NOTE 6 Other revenue		
Other revenue received/receivable from entities external to the SA Government	**2006 $'000**	**2005 $'000**
Fees and charges	2,916	5,366
Loan origination revenue amortisation	1,327	-
Bad debts recovered	127	153
Unrealised change in market value of investments	1,506	590
Managed funds distribution	1,412	1,518
Interest income from investments	515	714
Other	189	32
Total other revenues received/receivable from entities external to the SA Government	**7,992**	**8,373**
Other revenue received/receivable from entities within the SA Government		
EquityStart grant (1)	3,918	-
Realised change in market value of investments – SA Government	433	446
Total other revenue received/receivable from entities within the SA Government	**4,351**	**446**
Total other revenue	**12,343**	**8,819**

(1) EquityStart grant funds received
During the financial year, HomeStart received $4.2 million (Nil, 2004-2005) in grant funds from the Department for Families and Communities, to compensate HomeStart for fair value losses incurred on subsidised EquityStart loans, in addition to reimbursing HomeStart for the administration expenses incurred by administering the EquityStart loan programme. These grant funds are deferred and recognised in the Income Statement over the period necessary to match them with the costs that they are intended to compensate – refer to Note 2.6.

NOTE 7 Net gain from disposal of assets		
	2006 $'000	**2005 $'000**
Proceeds from disposal of assets	24	11
Less net book value of assets disposed	22	8
Total gain from disposal of assets	**2**	**3**

NOTE 8 Bad and doubtful debts expense		
	2006 $'000	**2005 $'000**
Bad and doubtful debts expensed	14	22
Increase in provision for impairment	2,811	1,432
Total bad and doubtful debts expense	**2,825**	**1,454**

NOTE 9 Government guarantee fee		
	2006 $'000	**2005 $'000**
Government guarantee fee paid or payable to entity within the SA Government	7,404	6,155
Total Government guarantee fee paid to entity within the SA Government	**7,404**	**6,155**

HomeStart paid a guarantee fee of 0.75% of outstanding borrowings to the Department of Treasury and Finance in 2005-2006 (0.75%, 2004-2005).

NOTE 10 Employee expenses, remuneration and number of employees		
	2006 $'000	**2005 $'000**
Salaries and wages	6,066	5,023
Long service leave	(45)	86
Annual leave	10	61
Employment on-costs – superannuation	492	470
Employment on-costs – other	344	288
Board fees	132	122
Total employee expenses	**6,999**	**6,050**

Remuneration of employees	**2006 No.**	**2005 No.**
The number of employees whose remuneration received or receivable falls within the following bands:		
$100,000 to $109,999	3	2
$110,000 to $119,999	1	-
$120,000 to $129,999	-	-
$130,000 to $139,999	1	-
$140,000 to $149,999	1	1
$150,000 to $159,999	-	1
$160,000 to $169,999	1	-
$170,000 to $179,999	-	-
$180,000 to $189,999	-	1
$190,000 to $199,999	1*	-
$200,000 to $209,999	1	-
$210,000 to $219,999	-	-
$220,000 to $229,999	-	1
$280,000 to $289,999	2*	-
Total number of employees	**11**	**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 $1.8 million ($0.9 million, 2004-05).
* Includes payment of redundancies and long service leave.

Number of employees at the end of the reporting period: HomeStart employed 88 (88, 2004-2005) people at the end of the reporting period.

NOTE 11 Key management personnel disclosures

The following were key management personnel of HomeStart at any time during the reporting period, and unless otherwise indicated were key management personnel for the entire period:

Non-executive Board members	Executives
Samuel Walters (Member until 11 July 2005)	Gary Storkey (Chief Executive Officer)
Jay Hogan (Member until 14 July 2005, re-appointed 15 December 2005)	John Comley (General Manager Corporate Services and Chief Financial Officer)
Claude Long (Chairperson)	Kathryn Murray (General Manager Retail Services)
Stephen Mann (Member until 11 July 2005)	Jay Walker (General Manager Community Finance from 1 June 2006)
Ann Darwin (Member until 25 August 2005)	Ian Wheaton (General Manager Treasury and Risk)
Jim Kouts (appointed 1 November 2005)	Desiree Holland (Director Retail Mortgage Division until 16 February 2006)
Estelle Bowman	Michael Owen (Director Information Technology until 7 April 2006)
Sandra De Poi	
Paula Capaldo (appointed 15 December 2005)	
Lindsay Smith (appointed 15 December 2005)	

Key management personnel compensation

The key management personnel compensation included in "employee expenses" (see Note 10) is as follows:

	2006 $	2005 $
Short-term benefits	987,134	779,987
Other long-term benefits	118,447	178,723
Post-employment benefits	87,717	68,793
Termination benefits	276,818	-
Total key management personnel compensation	**1,470,116**	**1,027,503**

Apart from the details disclosed in this note, no Board member has entered into a material contract with HomeStart since the end of the previous financial year and there were no material contracts involving Board members' interests existing at year-end.

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
- Key management personnel
- South Australian Government Financing Authority

Board members' remuneration

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

	2006 No.	2005 No.
$0 - $9,999	3	-
$10,000 - $19,999	4	1
$20,000 - $29,999	2	3
$30,000 - $39,999	1	1
Total number of Board members	**10**	**5**

	2006 $'000	2005 $'000
Total income paid or payable or otherwise made available to all Board members of HomeStart	140	130

NOTE 12 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 13 Depreciation and amortisation expense

Depreciation	2006 $'000	2005 $'000
Office and computer equipment	229	342
Total depreciation	**229**	**342**
Amortisation		
Leasehold improvements	107	67
Intangible assets	28	-
Total amortisation	**135**	**67**
Total depreciation and amortisation	**364**	**409**

NOTE 14 Revision in accounting estimates

During the year the estimated total useful lives of certain items of office and computer equipment and intangible assets were reassessed and revised as follows:

Class	**2006**	**2005**
Computer hardware	5 years	3 years
Computer software	4 years	3 years
Furniture and equipment	10 years	5 years
Leasehold improvements	10 years	5 years
Printers and scanners	7 years	3 years

The net effect of the changes in the current financial year was a decrease in depreciation and amortisation expense of HomeStart of $194,800.

Assuming the assets are held until the end of their estimated useful lives, it is estimated that depreciation and amortisation in future years will be decreased by the following amounts:

Year ending 30 June	**$'000**
2007	307
2008	219
2009	119
2010	69

NOTE 15 Other expenses		
Other expenses paid to entities within the SA Government	**2006 $'000**	**2005 $'000**
External auditor's remuneration	129	92
Insurance	49	29
Total other expenses paid to entities within the SA Government	**178**	**121**
Other expenses paid to entities external to the SA Government		
Office accommodation (minimum lease payments)	647	363
Marketing, product development and advertising	1,292	1,456
Internal audit fees	164	154
Loan administration	146	174
Information technology – loan management systems	68	68
Information technology – support and maintenance	251	285
Consultant's fees	234	251
Human resources and staff development	400	319
Other	1,615	1,193
Total other expenses paid to entities external to the SA Government	**4,817**	**4,263**
Total other expenses	**4,995**	**4,384**

The number and dollar amount of consultancies paid/payable that fell within the following bands:	**No**	**2006 $'000**	**No**	**2005 $'000**
Below $10,000	3	5	7	35
Between $10,000 and $50,000	8	172	6	142
Above $50,000	1	57	1	74
Total paid/payable to the consultants engaged	**12**	**234**	**14**	**251**

NOTE 16 Auditor's remuneration		
	2006 $'000	2005 $'000
Audit fees paid/payable to the Auditor-General's Department	129	92
Total audit fees – SA Government entities	**129**	**92**

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

NOTE 17 Investments		
	2006 $'000	2005 $'000
Investments at fair value through profit or loss		
Investments at fair value through profit or loss with entity within the SA Government		
SAFA composite bond index investment	6,993	6,431
SAFA cash enhanced fund	15,234	-
Total investments at fair value through profit or loss with entity within the SA Government	**22,227**	**6,431**
Investments at fair value through profit or loss with entities external to the SA Government		
Listed equities and properties funds	16,364	13,544
Total investments at fair value through profit or loss with entities external to the SA Government	**16,364**	**13,544**
Total investments at fair value through profit or loss	**38,591**	**19,975**
Held-to-maturity investments		
Held-to-maturity investments with entities external to the SA Government		
Bank bills	-	12,955
Total held-to-maturity investments with entities external to the SA Government	**-**	**12,955**
Total investments	**38,591**	**32,930**

17.2 Maturity profile of HomeStart's investments	2006 $'000	2005 $'000
At call	31,598	13,544
Not longer than 3 months	-	12,955
Longer than 3 months and not longer than 12 months	6,993	6,431
Total investments	**38,591**	**32,930**

NOTE 18 Loans and advances		
	2006 $'000	**2005 $'000**
18.1 Loans and advances		
Primary loans	1,128,460	988,074
Subsidised loans	55,601	36,274
Control accounts	2,170	(82)
Gross loans and advances	**1,186,231**	**1,024,266**
Fair value adjustment	(9,109)	-
Deferred loan fee income	(4,179)	-
Deferred loan fee expense	2,377	-
Specific provisions for impairment	(1,726)	(1,172)
Unearned income	(488)	(242)
General provision for impairment	-	(16,658)
Collective provision for impairment	(12,020)	-
Net loans and advances	**1,161,086**	**1,006,194**
Specific provision for doubtful debts		
Opening balance	1,172	661
Bad debts written off	(94)	(14)
Doubtful debts expense	648	525
Closing balance	**1,726**	**1,172**
General provision for doubtful debts		
Opening balance	16,658	15,751
Doubtful debts expense	-	907
Transfer to collective impairment provision on adoption of AIFRS at 1 July 2005	(16,658)	-
Closing balance	**-**	**16,658**

	2006 $'000	**2005 $'000**
Collective impairment provision		
Opening balance	-	-
Transfer from general provision for doubtful debts on adoption of AIFRS at 1 July 2005	16,658	-
Transfer to general reserve for credit losses on adoption of AIFRS at 1 July 2005	(5,633)	-
Adjustment to retained earnings on adoption of AIFRS at 1 July 2005	(1,168)	-
Doubtful debts expense	2,163	-
Closing balance	**12,020**	**-**
Total provision for impairment	**13,746**	**17,830**

18.2 Asset quality disclosures

	2006 $'000	2005 $'000
Non-accrual loans		
With provision	8,738	4,977
Without provision	653	87
Total non-accrual loans	**9,391**	**5,064**
	2006 $'000	**2005 $'000**
Specific provision	1,664	1,137
Interest foregone on non-accrual loans	488	242
Real estate acquired		
Balance of loans at end of financial year	462	458
Specific provision	62	35
Past due loans		
Balance of loans at end of financial year	2,563	2,281
Specific provision	-	-

The balance of loans and advances is shown after deducting the provision for impairment, ensuring that the balance reflects the expected recoverable amount of these loans. The basis of determining the provision for impairment is disclosed at note 2.11.

18.3 Maturity profile of HomeStart's loans and advances

	2006 $'000	2005 $'000
Longer than 1 year and not longer than 5 years	128	107
Longer than 5 years	1,186,103	1,024,159
Total gross loans and advances	**1,186,231**	**1,024,266**

The maturity distribution of 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 are expected to repay their loans in under 20 years).

As at 30 June total loans either approved but not settled or settled but not fully drawn amounted to $27.1 million ($35.4 million, 2005).

NOTE 19 Property, plant and equipment		
	2006 $'000	**2005 $'000**
Leasehold improvements		
Leasehold improvements at cost	1,819	273
Accumulated amortisation	(97)	(131)
Total leasehold improvements	**1,722**	**142**
Other office and computer equipment		
Other office and computer equipment at cost	2,801	3,142
Accumulated depreciation	(1,938)	(2,481)
Total other office and computer equipment	**863**	**661**
Total property, plant and equipment	**2,585**	**803**

	Leasehold improvements $'000	**Other office and computer equipment $'000**	**Total $'000**
Carrying amount at the beginning of the financial year	**142**	**661**	**803**
Estimated "make good" costs	129	-	129
Additions	1,574	433	2,007
Disposals	(16)	(2)	(18)
Depreciation and amortisation	(107)	(229)	(336)
Carrying amount at the end of the financial year	**1,722**	**863**	**2,585**

NOTE 20 Intangible assets		
	2006 $'000	**2005 $'000**
Software at cost	549	540
Accumulated amortisation	(514)	(486)
Total software	**35**	**54**
Carrying amount at the beginning of the financial year	54	78
Additions	13	19
Disposals	(4)	-
Amortisation	(28)	(43)
Carrying amount at the end of the financial year	**35**	**54**

NOTE 21 Other assets		
	2006 $'000	**2005 $'000**
Other assets – entities within the SA Government		
Accrued interest on derivatives (SAFA)	3	(1)
EquityStart grant receivable	1,392	-
Other	120	25
Total other assets – entities within the SA Government	**1,515**	**24**
Other assets – entities external to the SA Government		
Accrued interest on housing loans and advances	239	202
Accrued interest on cash at bank	3	37
GST recoverable	40	40
Prepayments	89	81
Other	101	-
Total other assets – entities external to the SA Government	**472**	**360**
Total other assets	**1,987**	**384**

NOTE 22 Payables		
	2006 $'000	**2005 $'000**
Payables to entities within the SA Government		
Creditors	3	-
Accrued administration expenses	130	100
Employment on-costs	132	137
Accrued interest payable	2,472	2,066
Accrued guarantee fee payable	645	541
Total payables to entities within the SA Government	**3,382**	**2,844**
Payables to entities external to the SA Government		
Creditors	215	341
Accrued administration expenses	148	171
Accrued loan manager fees	315	292
Total payables to entities external to the SA Government	**678**	**804**
Total payables	**4,060**	**3,648**

NOTE 23 Borrowings		
	2006 $'000	**2005 $'000**
23.1 Interest bearing liabilities		
Interest bearing liabilities payable to entity within the SA Government		
Short term borrowings	58,382	154,754
Long term borrowings	999,500	745,000
Total interest bearing liabilities payable to entity within the SA Government	**1,057,882**	**899,754**
Interest bearing liability payable to entity external to the SA Government		
Bank overdraft	518	-
Total interest bearing liability payable to entity external to the SA Government	**518**	**-**
Total interest bearing liabilities	**1,058,400**	**899,754**
23.2 Maturity profile of HomeStart's interest bearing liabilities		
At call	1,400	5,334
Not longer than 3 months	44,500	104,000
Longer than 3 months but not longer than 1 year	13,000	45,420
Longer than 1 year and not longer than 5 years	999,500	534,000
Longer than 5 years	-	211,000
Total interest bearing liabilities	**1,058,400**	**899,754**

HomeStart sources its borrowings from the South Australian Government Financing Authority (SAFA) and is subject to a gross borrowing limit of $1,350 million ($925 million, 2004-2005).

NOTE 24 Employee benefits		
	2006 $'000	**2005 $'000**
Annual leave	291	281
Long service leave	477	522
Accrued salaries	113	84
Total employee benefits	**881**	**887**

NOTE 25 Employee benefits and related on-costs		
	2006 $'000	**2005 $'000**
Accrued salaries		
On-costs included in payables (note 22)	21	21
Provision for employee benefits (note 24)	113	84
Total accrued salaries	**134**	**105**
Annual leave		
On-costs included in payables (note 22)	42	39
Provision for employee benefits (note 24)	291	281
Total annual leave	**333**	**320**
Long service leave		
On-costs included in payables (note 22)	69	77
Provision for employee benefits (note 24)	477	522
Total long service leave	**546**	**599**
Aggregate employee benefit and related on-costs	**1,013**	**1,024**

NOTE 26 Income tax payable		
	2006 $'000	**2005 $'000**
Income tax payable to entity within the SA Government	1,119	1,108
Total tax liability payable to entity within the SA Government	**1,119**	**1,108**

NOTE 27 Other liabilities		
	2006 $'000	**2005 $'000**
Other liabilities payable to or arising from transactions with entities within the SA Government		
Aboriginal loan security deposit	250	250
Unearned revenue (EquityStart grant)	1,719	-
Total other liabilities payable to or arising from transactions with entities within the SA Government	**1,969**	**250**
Other liabilities payable to or arising from transactions with entities external to the SA Government		
Make good provision	158	-
Operating lease incentive	140	-
Adelaide New Owners Grant	6	18
Total other liabilities payable to or arising from transactions with entities external to the SA Government	**304**	**18**
Total other liabilities	**2,273**	**268**

NOTE 28 Equity		
	2006 $'000	2005 $'000
Reserves		
General reserve for credit losses	7,484	-
Derivatives valuation reserve	935	-
Total reserves	**8,419**	**-**
Retained earnings	**130,554**	**135,990**
Total equity at the end of the financial year	**138,973**	**135,990**

Movements in equity were as follows:

	2006 $'000	2005 $'000
General reserve for credit losses		
General reserve for credit losses at beginning of the financial year	**-**	**-**
Adjustment on adoption of AASB 132 and AASB 139	5,633	-
General reserve for credit losses at the beginning of the financial year restated	**5,633**	**-**
Transfer from retained earnings	1,851	-
General reserve for credit losses at end of the financial year	**7,484**	**-**
Derivatives valuation reserve		
Derivatives valuation reserve at the beginning of the financial year	**-**	**-**
Adjustment on adoption of AASB 132 and AASB 139	(332)	-
Balance at the beginning of the financial year restated	**(332)**	**-**
Changes in the fair value of cash flow hedges	1,267	-
Balance at end of the financial year	**935**	**-**
Retained earnings		
Retained earnings at the beginning of the financial year	**135,990**	**136,490**
Adjustments on adoption of AASB 132 and AASB 139		
Recognition of investments at fair value	33	-
Recognition of deferred loan fees	1,486	-
Recognition of deferred loan income	(2,599)	-
Recognition of subsidised loan assets at fair value	(4,827)	-
Recognition of previously unearned income on subsidised loans	1,433	-
Adjustment to collective provision	1,168	-
Total adjustments on adoption of AASB 132 and AASB 139	**(3,306)**	**-**
Retained earnings at the beginning of the financial year restated	**132,684**	**136,490**
Transfer to credit losses reserve	(1,851)	-
Total recognised income and expense	4,721	4,500
Dividend paid	(1,558)	(1,485)
Capital distribution	(3,442)	(3,515)
Total retained earnings at end of the financial year	**130,554**	**135,990**

Dividend payment
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 2005-2006, HomeStart recommended and paid a dividend of $5.0 million (2005, $5.0 million) which has been allocated between dividend and capital repatriation in accordance with an established dividend policy based on commercial principles.

General reserve for credit losses
A general reserve for credit losses was created as at 1 July 2005, on adoption of AASB 132 and AASB 139 to set aside retained earnings being the equivalent of the excess of the loans impairment provision determined under the previous accounting policy over that determined under AIFRS. The maintenance of this reserve is consistent with the Australian Prudential Regulation Authority (APRA) prudential risk management requirements of retaining sufficient retained earnings for capital adequacy purposes.

Derivatives valuation reserve
The derivatives valuation reserve was created at 1 July 2005 on adoption of AASB 132 and AASB 139 to recognise the effective gain or loss on derivatives that are designated hedging instruments.

NOTE 29 Financial instruments

HomeStart's principal financial instruments comprise home loans and advances, investments, borrowings from the South Australian Government Financing Authority (SAFA) and derivatives, being mainly interest rate swaps.

HomeStart's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. HomeStart's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of HomeStart.

HomeStart enters into derivative transactions, principally interest rate swaps. The purpose is to manage the interest rate risk arising from HomeStart's operations and its sources of finance. It is, and has been throughout the period under review, HomeStart's policy that no trading in financial instruments shall be undertaken.

Risk management is overseen by the Finance Sub-Committee and the Asset and Liability Committee under policies approved by the Board. The Finance Sub-Committee identifies, evaluates and hedges financial risks.

The Board and Asset and Liability Committee review and approve policies for managing financial risks and they are summarised below.

29.1 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.

HomeStart engages in derivative financial instruments to hedge interest rate risk within its portfolio. These derivatives include interest rate swaps, bank bill futures and forward rate agreements (FRAs).

Fixed interest rate loan assets have been valued at fair value at 1 July 2005, being face value plus net transaction costs, and are hedged by interest rate swaps, which have been designated as cash flow hedges, to enable the portion of the effective gain or loss to be recognised in equity.

Fluctuations in the fair value of these transactions are not recognised in the Income Statement when HomeStart satisfies the "hedge accounting" requirements contained in AASB 139 *Financial Instruments: Recognition and Measurement*.

29.2 Interest rate swap contracts – cash flow hedges

Interest rate swap contracts are used to assist HomeStart in eliminating the mismatch between repricing of its assets with that of its liabilities.

HomeStart receives a fixed rate of interest on a portion of its loans to customers and pays floating interest on borrowings from SAFA. To protect it from an increase in interest rates payable on its borrowings from SAFA, HomeStart has entered into interest rate swap contracts under which it is obliged to receive interest at floating rates and pay interest at fixed rates.

As at 30 June 2006, HomeStart had floating/fixed swaps with a notional value of $168.0 million ($154.0 million, 2004-2005) with the fixed rates varying between 4.92% and 6.10% (4.84% and 6.10%, 2004-2005).

The notional principal amounts and periods of maturity of the interest rate swap contracts are as follows:

	2006 $'000	2005 $'000
Less than 1 year	64,000	48,000
1-2 years	59,000	62,000
2-3 years	38,000	35,000
3-4 years	3,500	5,000
4-5 years	3,500	4,000
Total notional principal amounts	**168,000**	**154,000**

The contracts are settled on a net basis. The average reset days and average rates are as follows:

	2006	2005
Receive (floating)		
Average reset days	26	26
Average rate	5.89%	5.64%
Pay (fixed)		
Average reset days	526	562
Average rate	5.70%	5.68%

The gain or loss from remeasuring the instruments at fair value is deferred in equity in the derivatives valuation reserve, to the extent that the hedge is effective. The ineffective portion is recognised in the Income Statement immediately. In the year ended 30 June 2006, there were no amounts recognised in the Income Statement.

At balance date these contracts were assets with fair value of $935,555 (liability of $331,493 - 2005).

In the year ended 30 June 2006 there was:

- on the date of transition to AASB 132 and AASB 139 on 1 July 2005 a reduction in equity of $331,493 on re-measurement to fair value; and
- an increase in fair value of $1,267,047 during the year which was recognised directly in the derivative valuation reserve within equity.

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).

2006	Average balance $'000	Interest $'000	Average interest rate %
Interest revenue			
Cash used for operating activities	695	14	2.01%
Cash used for investing activities	575	32	5.57%
Loans and advances	1,130,058	80,391	7.11%
	1,131,328	**80,437**	**7.11%**
Interest expense			
Interest on borrowings	**1,000,984**	**55,305**	**5.53%**

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%
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%**

The average balance of loans and advances has been calculated using their face value and does not include any fair value adjustment.

The interest revenue for 2005–06 excludes the subsidised loans fair value adjustment (refer to note 5).

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:							
2006	**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	0.01%	116	-	-	-	-	116
Cash used for investing activities	5.78%	370	-	-	-	-	370
Cash Enhanced Fund	5.82%	15,234	-	-	-	-	15,234
Composite bond index investment	-	-	-	-	-	6,993	6,993
Investment – property and equity	-	-	-	-	-	16,364	16,364
Derivative financial instruments	5.89%	3	-	-	-	-	3
Derivative financial instruments	5.70%	-	106	827	-	-	933
Loans and advances	7.30%	1,025,340	59,415	101,459	-	17	1,186,231
Other assets	-	-	-	-	-	1,987	1,987
		1,041,063	**59,521**	**102,286**	**-**	**25,361**	**1,228,231**
Financial liabilities:							
Borrowings	**5.81%**	**1,058,400**	**-**	**-**	**-**	**-**	**1,058,400**
Interest rate swaps (notional principal amounts)	-	(168,000)	64,000	104,000	-	-	-

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
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	-	-	-

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.

29.3 Credit risk exposures

Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity.

Derivative financial assets

Credit risk arises with amounts receivable from unrealised gains on derivative financial instruments. At balance date the following amounts are receivable and payable from interest rate swap contracts:

	2006 $'000	**2005 $'000**
Swap income receivable	356	413
Swap expense payable	(353)	(414)
Net receivable (note 21)	3	(1)

The only derivative counterparty with whom HomeStart is permitted by the Department of Treasury and Finance to transact is the South Australian Government Financing Authority (SAFA).

Loans and receivables

The credit risk on financial assets has been recognised in the Balance sheet as the carrying amount, net of any provisions for impairment. 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.

Investments

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.

NOTE 30 Commitments for expenditure		
	2006 $'000	**2005 $'000**
30.1 Capital commitments		
Capital expenditure contracted for at the reporting date but not recognised as liabilities in the financial report, are payable as follows:		
Not later than one year	-	1,700
Total capital commitments	**-**	**1,700**

30.2 Operating lease commitments

HomeStart's operating leases are for office accommodation. The leases are non-cancellable with terms ranging up to five 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 15.

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

	2006 $'000	**2005 $'000**
Not later than one year	729	704
Later than one year but not later than five years	2,344	3,678
Total operating lease commitments	**3,073**	**4,382**

NOTE 31 Contingent liabilities

HomeStart has no material contingent liabilities as at 30 June 2006 (2005 Nil).

NOTE 32 Cash flow reconciliation

32.1 Reconciliation of cash

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

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

	2006 $'000	**2005 $'000**
Deposits at call	116	744
Money market deposits	370	546
Cash as recorded in the Balance Sheet	**486**	**1,290**
Bank overdraft at call	(518)	**-**
Cash as recorded in the Cash Flow Statement	**(32)**	**1,290**

	2006 $'000	2005 $'000
32.2 Reconciliation of profit after income tax to net cash from operating activities:		
Profit after income tax	**4,721**	**4,500**
Gain on sale of fixed assets	(2)	(3)
Depreciation and amortisation expense	364	409
Estimated "make good" costs	(129)	-
Unrealised change in market value of investments	(1,506)	(590)
Reinvestment of investment income	(1,845)	(1,964)
Bad debts written off against profit	14	-
Bad debts written off against provision	94	36
Unearned income on bad debts written off	52	12
Grant monies transferred to loans and advances	12	-
Fees applied directly to loan accounts	(4,068)	(4,325)
Adjustments to opening balances of assets and liabilities:		
Fair value adjustment to loans and advances	(4,827)	-
Recognition of deferred loan fee income	(2,599)	-
Recognition of deferred loan fee expense	1,486	-
Adjustment to provision for doubtful debts	6,801	-
Changes in assets and liabilities:		
(Decrease) increase in provision for doubtful debts	(4,084)	1,418
Increase in deferred loan fee income	4,179	-
Increase in deferred loan fee expense	(2,378)	-
Increase in fair value adjustment	9,109	-
Increase in payables	412	198
(Decrease) increase in provision for employee benefits	(6)	164
Increase (decrease) in other liabilities	2,005	(30)
Increase (decrease) in unearned interest income	246	(39)
Increase in tax liability	11	488
Decrease (increase) in other assets	(1,603)	286
Net cash from operating activities	**6,458**	**560**

NOTE 33 Events after balance date

No matters or circumstances have arisen since the end of the financial year which significantly affected, or may significantly affect, the operations of HomeStart Finance, the results of those operations, or the state of affairs of HomeStart in subsequent years.

NOTE 34 Explanation of transition to AIFRSs

As stated in the Summary of significant accounting policies Note 2, these are HomeStart's first financial statements prepared in accordance with AIFRSs.

The policies set out in the Summary of significant accounting policies section of this report have been applied in preparing the financial statements for the year ended 30 June 2006, the comparative information presented in these financial statements for the year ended 30 June 2005, and in the preparation of an opening AIFRS balance sheet at 1 July 2004 (HomeStart's date of transition).

In preparing its opening AIFRS balance sheet, HomeStart has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP). An explanation of how the transition from previous GAAP to AIFRSs has affected HomeStart's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

This note explains the principal adjustments made by HomeStart in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

Explanation of material adjustments to the cash flow statement

There are no material differences between the Cash Flow Statement presented under AIFRS and the Cash Flow Statement presented under previous AGAAP.

Reconciliation of Balance Sheet reported under previous AGAAP to Balance Sheet under AIFRS at the date of transition to AIFRS: 1 July 2004

		AGAAP As at 30 June 2004 $'000	Effect of transition to AIFRS $'000	AGAAP As at 1 July 2004 $'000
	Reference			
Assets				
Cash and cash equivalents		1,869	-	1,869
Investments		27,335	-	27,335
Loans and advances		802,042	-	802,042
Property, plant and equipment	1	640	(78)	562
Intangible assets	1	-	78	78
Other assets		670	-	670
Total assets		**832,556**	**-**	**832,556**
Liabilities				
Payables		3,450	-	3,450
Short term borrowings		80,700	-	80,700
Long term borrowings		610,275	-	610,275
Employee benefits		723	-	723
Income tax payable		620	-	620
Derivative financial instruments		-	-	-
Other liabilities		298	-	298
Total liabilities		**696,066**	**-**	**696,066**
Net assets		**136,490**	**-**	**136,490**
Equity				
Reserves			-	
Retained earnings		136,490	-	136,490
Total equity		**136,490**	**-**	**136,490**

Notes to the Reconciliation of Balance Sheet reported under previous AGAAP to Balance Sheet under AIFRS at the date of transition to AIFRS: 1 July 2004

Reference	Item	AGAAP	AIFRS	Impact
1	Property, plant and equipment	Computer software was classified as Property, plant and equipment	Under AASB 138 *Intangible Assets*, computer software is classified as an intangible asset. Therefore, computer software has been reclassified from Property, plant and equipment to Intangible assets.	Decrease to Property, plant and equipment, and increase to Intangible assets of $78,499.

Reconciliation of Balance Sheet reported under previous AGAAP to Balance Sheet under AIFRS at the end of the last reporting period under previous AGAAP: 30 June 2005

		AGAAP As at 30 June 2005 $'000	Effect of transition to AIFRS $'000	AIFRS As at 30 June 2005 $'000
	Reference			
Assets				
Cash and cash equivalents		1,290	-	1,290
Investments		32,930	-	32,930
Loans and advances		1,006,194	-	1,006,194
Property, plant and equipment	1	857	(54)	803
Intangible assets	1	-	54	54
Other assets		384	-	384
Total assets		**1,041,655**	**-**	**1,041,655**
Liabilities				
Payables		3,648	-	3,648
Short term borrowings		154,754	-	154,754
Long term borrowings		745,000	-	745,000
Employee benefits		887	-	887
Income tax payable		1,108	-	1,108
Derivative financial instruments		-	-	-
Other liabilities		268	-	268
Total liabilities		**905,665**	**-**	**905,665**
Net assets		**135,990**	**-**	**135,990**
Equity				
Reserves		-	-	-
Retained earnings		135,990	-	135,990
Total equity		**135,990**	**-**	**135,990**

Notes to the reconciliation of balance sheet reported under previous AGAAP to balance sheet under AIFRS at the end of the last reporting period under previous AGAAP: 30 June 2005

Reference	Item	AGAAP	AIFRS	Impact
1	Property, plant and equipment	Computer software was classified as Property, plant and equipment	Under AASB 138 *Intangible Assets*, computer software is classified as an intangible asset. Therefore, computer software has been reclassified from Property, plant and equipment to Intangible assets.	Decrease to Property, plant and equipment, and increase to Intangible assets of $54,403.

Reconciliation of profit for 2004-05

		Previous GAAP ($'000)	Effect of transition to AIFRSs ($'000)	AIFRSs ($'000)
	Reference			
Interest revenue		65,418	-	65,418
Borrowing costs		(43,829)	-	(43,829)
Net interest revenue		**21,589**	**-**	**21,589**
Other revenue		8,822	-	8,822
Bad and doubtful debts (expense)/credit		(1,454)	-	(1,454)
Government guarantee fee		(6,155)	-	(6,155)
Loan manager fees		(5,530)	-	(5,530)
Employee expenses		(5,928)	-	(5,928)
Depreciation and amortisation		(409)	-	(409)
Other expenses		(4,506)		(4,506)
Profit before tax		**6,429**	**-**	**6,429**
Income tax equivalent expense		**(1,929)**	**-**	**(1,929)**
Profit for the year		**4,500**	**-**	**4,500**
Profit attributable to the SA Government as owner		**4,500**	**-**	**4,500**

NOTE 35 Changes in accounting policy

In the current financial year HomeStart adopted AASB 132: *Financial Instruments: Disclosure & Presentation* and AASB 139: *Financial Instruments: Recognition and Measurement*. This change in accounting policy has been adopted in accordance with the transition rules contained in AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132 and AASB 139.

Reconciliations and descriptions of the effect of the transition from previous GAAP to AIFRSs on HomeStart's equity at 1 July 2005 are detailed below.

The impact on the balance sheet in the comparative period is set out below as an adjustment to the opening balance sheet at 1 July 2005.

Reconciliation of Balance Sheet reported under AIFRS as at 30 June 2005 to changes under AIFRS effective 1 July 2005

		AIFRS As at 30 June 2005 ($'000)	Effect of AASB 132/139 on transition to AIFRS ($'000)	AIFRS As at 1 July 2005 ($'000)
	Reference			
Assets				
Cash and cash equivalents		1,290	-	1,290
Investments	1	32,930	33	32,963
Loans and advances	2,3,4,6	1,006,194	2,294	1,008,488
Property, plant and equipment		803	-	803
Intangible assets		54	-	54
Other assets		384	-	384
Total assets		**1,041,655**	**2,327**	**1,043,982**
Liabilities				
Payables		3,648	-	3,648
Short term borrowings		154,754	-	154,754
Long term borrowings		745,000	-	745,000
Employee benefits		887	-	887
Income tax payable		1,108	-	1,108
Derivative financial instruments	5	-	332	332
Other liabilities		268	-	268
Total liabilities		**905,665**	**332**	**905,997**
Net assets		**135,990**	**1,995**	**137,985**
Equity				
Reserves	6	-	5,301	5,301
Retained earnings		135,990	(3,306)	132,684
Total equity		**135,990**	**(1,995)**	**137,985**

Notes to the reconciliation of balance sheet

Impact of adopting AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*

HomeStart elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the areas impacted upon adoption of AASB 132 and AASB 139, including the financial impact to equity and profit.

Reference	Item	AGAAP	AIFRS	Impact
1.	Investments	Investment in bank bills recognised at face value at date of purchase.	Investments recognised at fair value.	Increase in assets, increase in equity of $33,465.
2.	Loans and advances	Loan assets recognised at face value. Loan origination costs recognised as expenses when paid/payable. Loan fees income recognised when received/receivable.	Under AASB 139, loan assets have been classified as loans and receivables, and were initially recognised at 1 July 2005 at fair value being face value plus net transaction costs.	Loan fees origination expenses for 2004-05 were reversed, and will be amortised over the average loan life of 5 years on an effective yield basis. Increase to assets and equity of $1,485,789. Loan fees income for 2004-05 was reversed and will be amortised over the average loan life of 5 years on an effective yield basis. Decrease to assets and equity of $2,599,442.
3.	Subsidised loan assets	Subsidised loan assets recognised on balance sheet at face value.	Subsidised loan assets at 30 June 2005 were initially recognised on balance sheet at fair value on 1 July 2005, being measured by discounting the expected cash flows using a risk-free rate of interest, based on 4 year (for Advantage loans) and 10 year (for EquityStart loans) SAFA Bonds. Subsidised loan assets were increased by an amount of unearned income, previously not accounted for, being the interest that would be recognised once loans exceed a term of five years and become ineligible for an interest rebate.	The initial recognition of subsidised loans at fair value resulted in an initial loss of $4,827,420 being generated, being the difference between the amount disbursed (face value) and the fair value. This amount was taken to retained earnings at 1 July 2005, and will be amortised over the average loan life of 4 years on an effective yield basis. Decrease to assets and equity of $4,827,420. Increase in assets, increase in equity of $1,433,353.
4.	Collective provision for impairment	General provision created for losses inherent in the portfolio which have not yet been identified.	Impairment provision created where there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset.	Adjustment to collective provision. Increase in equity and decrease in impairment provision of $1,168,000.

Reference	Item	AGAAP	AIFRS	Impact
5.	Interest rate swaps	Interest rate swaps were not recognised on balance sheet. Net receipts and payments were recognised as an adjustment to interest expense.	Interest rate swaps were recognised on balance sheet at fair value. The interest rate swap held at 30 June 2005 was designated as a hedge and has been accounted for as a derivative. Fixed interest rate loan assets have been valued at fair value at 1 July 2005, being face value plus net transaction costs, and are hedged by interest rate swaps, which are being designated as cash flow hedges, to enable the portion of the effective gain or loss to be recognised in equity. Under AASB 139 *Financial Instruments: Recognition and Measurement*, fair value and cash flow hedge accounting can only be used where effectiveness tests have been satisfied. HomeStart has established that hedge accounting criteria will be met.	Recognition of a derivative asset and creation of a derivatives valuation reserve of $332,000. Decrease in equity and an increase in liabilities of $332,000.
6.	Loans credit losses reserve	General provisions were recognised where impairment was considered probable. The full face value of the estimated loss was allocated to the provision. Provisions for doubtful debts included both a specific and general provision, with the latter covering all losses inherent in a loan portfolio.	A requirement for objective evidence of impairment incurred as a result of one or more events after initial recognition of a loan either on an individual or collective basis. Under AASB 139 *Financial Instruments: Recognition and Measurement*, provisions are raised for losses that have already been incurred for loans that are not yet known to be impaired. The estimated impairment loss is to be determined by discounting the estimated future cash flows using the effective interest rate under AASB 139 to determine a present value. Loans that are not impaired are grouped together according to their risk characteristics and are then assessed for impairment. Based on the historical loss data and current available information for assets with similar risk characteristics, the appropriate provision is raised.	A write-back of provisioning and the creation of a general reserve for credit losses on 1 July 2005 of $5,633,000. Creation of a general reserve for credit losses to maintain a prudent coverage for potential losses, to ensure that sufficient capital is maintained. Increase in equity and decrease in impairment provision of $5,633,000.

INDEPENDENT AUDIT REPORT

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Auditor-General's Department

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TO THE CHAIR
HOMESTART FINANCE

SCOPE

As required by subsection 31(1)(b) of the *Public Finance and Audit Act 1987* and subsection 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 2006. The financial report comprises:

- An Income Statement;
- A Balance Sheet;
- A Statement of Changes in Equity;
- A Cash Flow Statement;
- Notes to the Financial Statements;
- Statement by the Chair and Deputy Chair;
- Statement by the Chief Executive Officer and General Manager Corporate Services and 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 Chair.

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.

QUALIFICATION

The collective impairment provision for loans and advances of $12 million at 30 June 2006, as disclosed in Note 18.1 to the financial statements, has, in my opinion, been calculated as a general provision. The collective provision balance of $9.8 million at 1 July 2005 has also been calculated on this basis. The increase in the provision for the year resulted in a bad and doubtful debts expense of $2.2 million.

In my opinion, the basis of calculation of the collective impairment provision is not in accordance with Australian Accounting Standard AASB 139 'Financial Instruments: Recognition and Measurement'. This is a difference of opinion with HomeStart Finance on the method of application of the Standard.

Audit has noted objective data that supports the establishment of a collective provision but did not have all the necessary information to quantify the effect of the difference of opinion with HomeStart Finance.

QUALIFIED AUDIT OPINION

In my opinion, except for the effects on the financial report of the matter referred to in the qualification paragraphs, 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 2006, the results of its operations and its cash flows for the year then ended.

K I MacPherson
Auditor-General
3 October 2006

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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 accounts which have been submitted to the Auditor-General.

For information or copies of the annual report
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