

# 2008-09 ANNUAL REPORT

“ Now we can  
build our  
dream home.



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## 2008-09 ANNUAL REPORT

HomeStart Finance  
Office address  
153 Flinders Street  
Adelaide SA 5000

Postal address  
GPO Box 1266  
Adelaide SA 5001

ABN  
82 829 169 885

ISSN  
1834-1810

Telephone  
08 8203 4000  
Freecall 1800 018 788  
(from regional locations)

Facsimile  
08 8203 4001

Website  
[www.homestart.com.au](http://www.homestart.com.au)

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.

Acknowledgements  
HomeStart would like to thank the staff who contributed to our Annual Report.

For information on the annual report:  
Marketing Department  
HomeStart Finance  
GPO Box 1266  
Adelaide SA 5001

## LETTER OF TRANSMITTAL

The Hon Jennifer Rankine 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 2009.

The report summarises the activities and successes that HomeStart Finance has had over the past 12 months. On behalf of all staff at HomeStart, 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

## REPORT FROM THE CHAIR

### HomeStart delivered excellent results in 2008-09, with two months of record levels of lending achieved.

While remaining mindful of the volatile financial markets in which it operated, HomeStart has pursued innovative lending solutions and opportunities to increase affordable housing supply. At the same time, HomeStart has continued to provide the Government of South Australia with an appropriate return on the capital employed in the business.

The 2008-09 financial year presented a unique set of challenges and opportunities for HomeStart. As the ramifications of the Global Financial Crisis (GFC) and subsequent 'credit crunch' became more apparent in both the housing and finance sectors, South Australian home buyers and those aspiring to break into the market faced a very different landscape to the previous 12 months.

While Australia has avoided the level of recession faced by other developed nations, the substantial slowdown in growth had implications for the housing market.

The Federal Government attempted to lessen the impact of the GFC in October 2008, firstly with a \$42 billion stimulus package, which included the introduction of the First Home Owner Grant 'boost'. Coupled with the six cuts in interest rates, this had the desired effect of stimulating demand for housing – particularly for properties at the lower end of the market.

At the same time, changes within the home finance industry had an impact on access to suitable finance. Many lenders tightened their lending criteria, including reducing their maximum Loan to Valuation Ratios (LVRs). This presented challenges for home buyers who, in many cases, were required to contribute significantly larger deposits.

In this environment, HomeStart's dedication to providing accessible, conscionable lending products underpinned a solid financial performance.

Importantly, HomeStart's position of strength allowed it to maintain a strong commitment to its charter to assist the wider local community with housing goals. This is reflected in the organisation's customer base, which represents a broad cross-section of the community including young professionals, migrants, seniors and many more.

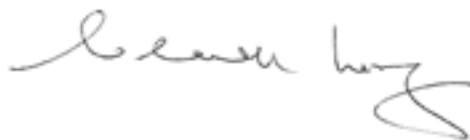
In reviewing the past year, it is most appropriate that I record my appreciation of the dedicated efforts made by the whole team at HomeStart, with everybody from new staff members to the organisation's senior management team contributing to our overall success.



Finally, I am aware that our CEO Mr Gary Storkey has indicated that he is to retire from HomeStart later in 2009, to enter a well-deserved semi-retirement as well as to pursue other personal goals.

Mr Storkey has been with HomeStart since its inception, and has been instrumental in guiding it along what have, on occasions, been difficult paths. It is fair to say that without Mr Storkey's dedication and enthusiasm HomeStart would not be the successful and vibrant organisation that it is today.

Mr Storkey will be greatly missed and I am sure that I speak on behalf of all when I thank him for his past efforts and wish him well with his future endeavours.



**Claude Long**  
Chairman

## REPORT FROM THE CEO

**Almost twenty years ago, I proposed to the South Australian Government that access to affordable, suitable housing is fundamental to the wellbeing of individuals and the community – and that an organisation like HomeStart would play a central role in improving this accessibility.**

In 2008-09, the landscape looks very different. Interest rates are at very low levels by historical standards, house prices have risen dramatically and suitable housing at the lower end of the market is in short supply. However, despite the changes, HomeStart remains a vital means by which people can achieve their home ownership goals. In fact, it can be argued that we have greater relevance now than when we were founded.

There's no doubt that 2008-09 was a turbulent year for HomeStart. The rapidly changing external environment necessitated equally fast responses, which balanced long-term sustainability with the immediate issues faced by our potential and existing customers. Our focus was to consolidate our strengths, and build on these to create more opportunities for affordable housing outcomes.

This approach enabled us to achieve outstanding results. As well as our strong financial position, we have expanded our reach through key projects with both public and private sector organisations. Highlights include the award-winning Brahma Green housing development with City of Salisbury, working with community housing organisations to create more affordable rental outcomes, expanding our distribution network through accredited third parties such as brokers, and furthering our strong relationships with our loan managers.

I have always maintained that our unique staff culture is central to our success. The people who work at HomeStart are committed to making their contribution count, and each year their motivation has driven the organisation to achieve fantastic results. 2008-09 was no exception.

HomeStart is equally dedicated to providing a working environment that supports innovation and rewards performance. We encourage our people to balance their work and personal life, and ensure that each person has the opportunity to further their personal and career development through education and training. I believe that HomeStart is a great place to work – and that belief was confirmed by our second 'Recommended Employer' award from the Australian Business Awards.



As the 2009-10 year approaches, it is important that housing remains high on the agenda at both state and federal levels of government. While there are unknowns that could have a significant impact – from the scaling back and end of the First Home Owner Grant 'boost', to further volatility in house prices – home ownership will always remain an aspiration for South Australians. Research we recently undertook showed that seven out of ten South Australians still believe home ownership is 'very important' and three out of four believe that home ownership is becoming less affordable in this state. However, despite the challenges, 91% stated that they would prefer to buy a home locally rather than interstate – and HomeStart will be here to help make sure that's possible.

In the lead up to my retirement as CEO of HomeStart later in 2009, I'd just like to say how much I've enjoyed being part of this organisation and the challenges of the role. I would also like to thank the many great people I've had the opportunity to work with over the years for their commitment and contribution to HomeStart's success.

Helping households achieve home ownership has to be one of the best jobs in the world!

**Gary Storkey**  
Chief Executive Officer

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## CONTENTS

<b>Highlights</b>	<b>7</b>
Highlights	8
<b>Our Organisation</b>	<b>9</b>
Our vision	10
Our role	11
Our customers	11
Our strategy	12
<b>Our Progress</b>	<b>13</b>
Lending	14
Affordable housing	16
<b>Our People</b>	<b>19</b>
Our culture	20
Workplace benefits	20
Equal employment opportunity and diversity	22
<b>Our Business</b>	<b>26</b>
Sustainable financial management	27
Corporate governance	31
Statutory information	35
<b>Financial Statements</b>	<b>39</b>
Certification of the Financial Report	40
Statement of Comprehensive Income	41
Statement of Financial Position	42
Statement of Changes in Equity	43
Statement of Cash Flow	44
Notes to the Financial Statements	47
Auditor-General's Report	88

# HIGHLIGHTS



“ Now we’ve got room to move.

## HIGHLIGHTS

### Key achievements

Sound performance across all sectors of the organisation, with all retail channels exceeding new lending targets, including record new lending levels in the final two months of the financial year.

Contributed towards several housing related goals outlined in the South Australian Strategic Plan, including promoting affordable housing (target 6.7) and reducing housing stress (target 6.8).

Celebrated our 500th Breakthrough Loan and 1000th EquityStart Loan, a significant milestone for these lending products designed to increase borrowing capacity without adding to repayment amounts.

Settled a loan for Unity Housing to fund sixteen rental properties in Adelaide, and worked with other community housing organisations to develop suitable financing options to help increase the supply of affordable rental properties.

An increase of 47.1% in the number of Construction Loans from the previous year, reflecting the trebling of the First Home Owner Grants for newly built homes.

Launched 'Boost and Build', a variation of HomeStart's Construction Loan, to help first home buyers meet the deposit gap between the settlement of Construction Loans and receipt of First Home Owner Grants.

Received three major awards: 'Recommended Employer' and 'Community Contribution' from the national Australian Business Awards, and the state award for the 2009 Australian Teleservices Association 'Best Call Centre - less than 50 FTE'.

Launched the Brahma Green housing development in conjunction with the City of Salisbury and McCracken Homes, creating eleven affordable housing outcomes at Brahma Lodge.

Achieved an overall score of 88% in the 2009 staff engagement survey, well above the 80% benchmark for world's best practice.

Developed and implemented a Corporate Strategic Plan to outline key goals for the next three years.

### Home loan highlights

1939 South Australian households achieved their home ownership goals with HomeStart

\$387.9 million in lending for the year

### Financial indicators

Return on equity 6.95%

Operating profit before tax \$10.2 million

Payments to government \$17.2 million

### Balance sheet strength

Capital \$138.9 million

Net loan losses \$0.07 million

Loan assets \$1.43 billion

Capital adequacy ratio 15.9%

# OUR ORGANISATION

“ Now I can play around with our decor.



## OUR ORGANISATION

### Our vision

Leading the nation in affordable housing finance solutions.

### Our purpose

Making home ownership possible.

### Our values

- Empathy in delivery
- Leader in our field
- Ethical in action
- Commercial in thinking
- Team player at heart.

CEO Gary Storkey with 500th Breakthrough Loan customer, Leann.



# OUR ORGANISATION

## Our role

HomeStart’s primary role is to provide home ownership opportunities for more South Australians.

HomeStart was established in 1989 to help 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 finance on concessional or special 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.

HomeStart reports to the Minister for Housing, and works closely with the Department for Families and Communities to coordinate and deliver affordable housing opportunities to the community.

HomeStart liaises regularly with Housing SA (located within the Department for Families and Communities) to coordinate housing activities and responses. Our Chief Executive Officer participates in the Housing Leadership Group, and the organisation is involved with other consultative, service delivery and housing policy development groups.

HomeStart also works with other government departments, developers and community housing organisations (CHOs) to develop affordable housing opportunities through a whole-of-industry approach.

## Our customers

Over almost 20 years, HomeStart has assisted more than 55 000 South Australian households with their home ownership needs, consolidating our reputation as an innovative and well-respected organisation across the state.

## Organisational chart



## OUR ORGANISATION

Our customer-centric approach provides impetus to develop initiatives that help overcome challenges to achieving home ownership, such as interest rate fluctuations, deposit requirements, income restrictions and the supply of affordable housing.

Our home loans are designed to help people at all stages of life, particularly those who may be at a disadvantage when seeking to secure home ownership. In 2008-09 this included:

- low to moderate income earners finding it difficult to break into the market due to rising house prices
- first home buyers looking to take advantage of the 'boost' to the First Home Owner Grant
- graduates starting out in their careers, wanting to establish themselves in South Australia
- families needing to refinance after a separation or change of circumstances
- public housing tenants aspiring to move from renting to owning an asset of their own
- Aboriginal South Australians seeking financial security for themselves and their families.

In 2008-09, the percentage of new customers who were first home buyers was 56%, an increase of 12% on the previous year, which can be attributed in part to the Federal Government's First Home Owner Grant 'boost'.

The demand for affordable home loans in the community, and our ability to provide them is evidenced by our customer base, with the majority of HomeStart's new customers falling within the low to moderate income bracket:

- 69% of customers earned less than the average weekly ordinary time earnings (\$1116.50 per week or \$58 058 per year)
- 28% of metropolitan customers were earning less than \$42 194 per annum
- 16% of regional customers were earning less than \$35 794 per annum
- 30% of customers identified Centrelink benefits as their main source of income.

### Our strategy

HomeStart's strategy is closely linked to the objectives of South Australia's Strategic Plan, and refers to certain objectives to create and implement its own goals, thereby achieving its purpose and vision.

In 2008-09, HomeStart conducted an in-depth strategic planning exercise to develop a Corporate Strategic Plan which outlines key goals for the next three years. These key goals will underpin the work undertaken by HomeStart to facilitate achievement of long-term targets.

The key goals and objectives of the Corporate Strategic Plan were cascaded down through departmental targets and into the key performance indicators (KPIs) for each staff member. In this way, each person who works for HomeStart is clear about the overall vision and purpose, and can identify how their work contributes to the accomplishment of the organisation's goals.

From next year, HomeStart will report on progress against major KPIs outlined in the Corporate Strategic Plan, as well as continuing to contribute to specific targets within South Australia's Strategic Plan.

### Strategic plan targets

In the previous twelve months, initiatives undertaken to provide affordable home finance, as well as those set on a longer term basis, contributed directly to achieving the following targets within South Australia's Strategic Plan:

- Target 6.7 (Affordable housing)  
Increase affordable home purchase and rental opportunities by five percentage points by 2014
- Target 6.8 (Housing stress)  
Halve the number of South Australians experiencing housing stress by 2014.

HomeStart's activities also contribute indirectly to achieving other targets identified in South Australia's Strategic Plan, including:

- Target 1.16: Share of overseas students
- Target 1.23: Interstate migration
- Target 1.24: Overseas migration
- Target 6.6: Homelessness
- Target 6.9: Aboriginal housing
- Target 6.10: Housing for people with disabilities
- Target 2.12: Work/life balance
- Target 6.24: Aboriginal employees.

# OUR PROGRESS



“ Now I can watch my asset grow.”

## OUR PROGRESS

In 2008-09, HomeStart faced a challenging external environment. The Global Financial Crisis and subsequent credit crunch created unprecedented pressure on the housing and finance markets. Both aspiring and existing home owners were faced with rapid changes and an uncertain outlook for house prices as interest rates fell sharply, the rate of unemployment increased and first home buyer stimulus packages influenced the market.

HomeStart's key goal during this period of turbulence was to build on its position of strength by providing innovative lending products, working with others across the industry to create housing opportunities and contributing to the community through education and sponsorship.

In striving to meet these aims, HomeStart provided opportunities for 1939 South Australian households who took out a HomeStart loan during the year. We also launched a housing development that encouraged 98 people to apply for one of eleven affordable homes, celebrated our 1000th EquityStart Loan and 500th Breakthrough Loan milestones, and won two Australian Business Awards for 'Community Contribution' and 'Recommended Employer'.

### Lending

Pressures on cost of funding for major banks, a reduction in the number of non-bank lenders in the market, interest rate cuts and the introduction of the First Home Owner Grant 'boost' all had a major impact on HomeStart's lending in 2008-09.

Despite the unpredictable lending environment, all retail channels – internal and external – exceeded new lending targets. The First Home Owner Grant 'boost', coupled with low interest rates and strong demand for HomeStart's unique home loan products, fuelled growth in settlements, which gathered momentum as the year progressed. In May and June alone, HomeStart recorded \$87 million in new lending settlements, which represents 25% of new settlements for the year.

While government grants to first home buyers have added to demand, part of the increased lending volumes can also be attributed to HomeStart filling a gap in the market left by other financial institutions who have either withdrawn completely from home finance or tightened their credit criteria significantly. For example, many lenders have reduced their maximum Loan to Valuation ratio (LVR).

Following interest rate cuts, HomeStart's variable rate reached its lowest level on record in February 2009. Fixed rates also reached a historical low in January 2009.

The low interest rates had a positive effect on both borrowing capacity for new customers and loan terms for existing customers. However, like many other financial institutions, HomeStart faces an increased cost of funding and will continue to carefully assess its position in relation to rates.

Other increasingly important considerations in HomeStart's lending practices are unemployment and under-employment. In 2008-09, official unemployment rates rose by 0.7% to 5.4%, and many predict that this level will increase to 8.25% in the coming year. Concurrently, increasing numbers of people experienced under-employment, primarily through a reduction in working hours. This will continue to affect their capacity to meet home loan repayments. In recognition of this, HomeStart reiterated its position of working with customers on a case-by-case basis to help them remain in home ownership.

Over the coming year, we aim to maintain our strong position in relation to the provision of affordable home loan products, and will continue to work with our customers to manage the challenge of external financial pressures created by the economic environment.

### Home loan initiatives

In 2008-09, delivery of affordable home loans was once again the core driver of HomeStart's operations.

Central to our loans is the Repayment Safeguard, a unique repayment structure which breaks the link between interest rates and repayment amounts. Repayments are initially based on the customer's income and typically adjusted once a year in line with inflation. This means that in most cases, no matter what happens with interest rates, repayment amounts will only change once every twelve months.

The Repayment Safeguard forms the basis of our flagship loan, the HomeStart Home Loan, from which other loans are derived. On the strength of these products, we have continued to address barriers to home ownership such as affordability, savings capacity, loan serviceability and credit commitments.

### Breakthrough Loan

In 2008-09, 345 Breakthrough Loans were settled, totalling \$24.9 million (Breakthrough component) and \$58.9 million (HomeStart loan component). In April 2009, the 500th Breakthrough Loan was written – a significant milestone in the product's two year history.

## OUR PROGRESS

The Breakthrough Loan is HomeStart's shared appreciation product that allows customers to borrow up to 35% more than they would normally be eligible for, without increasing repayment amounts. In return, the customer shares a portion of the property's future capital gain or loss with HomeStart when it is sold.

The Breakthrough Loan was developed as a way to overcome the substantial challenges posed by increasing house prices, including securing sufficient loan amounts and saving a deposit while renting.

The Breakthrough Loan makes it possible for people to live in suburbs closer to their family networks, rather than being forced to move long distances to accommodate their budget. It also helps people who need to upgrade their property, as well as those who are struggling to remain in their home due to unforeseen circumstances such as family breakdown or a reduction in income.

### Construction Loan

In 2008-09, we recorded a 47.1% increase from the previous year in the number of HomeStart customers choosing to build, indicating that the trebling of the First Home Owner Grant for construction has increased the level of interest in building a new home.

In March 2009, we developed a variation of the Construction Loan called 'Boost & Build', to help people meet the deposit gap between the settlement of construction loans and receipt of the First Home Owner Grants.

Boost & Build allows first home buyers purchasing a house and land package to take immediate advantage of the First Home Owner Grants by offsetting start-up costs against the grants, which aren't received until building commences. This eases the pressure of meeting deposit, fees and charges right away.

Boost & Build has had a positive impact on the number of first home buyers taking up the option to build, with 46 Construction Loans utilising this initiative since it was launched.

### EquityStart Loan

155 EquityStart Loans were settled in 2008-09, taking us over the 1000 milestone to a total of 1009 loans worth \$45.2 million (EquityStart component) and \$123.8 million (HomeStart loan component).

EquityStart, a joint initiative of HomeStart and the Department for Families and Communities, offers eligible

public housing tenants the opportunity to buy their currently rented property, another vacant public housing property, or a property on the private market.

EquityStart offers a subsidised loan of up to \$50 000 on top of a HomeStart loan, delivering customers increased borrowing capacity without undue financial strain.

### Advantage Loan

285 Advantage Loans were written in 2008-09 to the value of \$5.7 million.

The Advantage Loan is designed to assist low income earners as a 'top up' on a variety of HomeStart loan products, providing increased purchasing capacity without adding to repayment amounts.

### Nunga Loan

41 Nunga Loans were written in 2008-09 to the value of \$7.7 million. This brings the total number of loans written to 413.

The Nunga Loan was developed specifically to assist South Australians of Aboriginal or Torres Strait Islander origin into home ownership. HomeStart is pleased to report that the loan continues to be a successful approach to increasing the number of Aboriginal households entering into home ownership.

### Low Deposit and Graduate Loans

The Low Deposit Loan and Graduate Loan were designed to provide people with the opportunity to enter into home ownership with less deposit required upfront.

HomeStart settled 201 Graduate Loans in 2008-09, bringing the total number to 1325 since the loan commenced in 2002, assisting many skilled professionals and key workers to make a permanent home in our state.

282 Low Deposit Loans were written in 2008-09.

### Regional lending

HomeStart remains committed to assisting regional South Australians with their home ownership needs, and 36% of HomeStart customers live in a regional area.

In February 2009, HomeStart's Whyalla Information Centre celebrated five years of operation, during which time local staff have assisted hundreds of families including skilled migrants and public housing tenants to enter home ownership.

## OUR PROGRESS

### Distribution network

HomeStart loans are available directly through HomeStart offices and more widely through our four loan managers – BankSA, Bernie Lewis Home Loans, The Home Loan Centre and HomeLoans Plus. The Loan Managers also service a wide range of additional agents.

In 2008-09, HomeStart began the process of expanding its distribution network through brokers and introducers across the state. Working with these business partners will allow more South Australians access to HomeStart's unique range of home loans.

### Customer service

HomeStart prides itself on a customer-centric outlook, and 2008-09 was no exception. Our Customer Contact Centre received industry recognition for its outstanding team culture and business contribution, winning the state award for 2009 Australian Teleservices Association 'Best Call Centre – less than 50 FTE'.

Through our Contact Centre, we responded to 30 807 enquiries from potential and existing customers via phone, email and face-to-face.

Enhancements to our digital presence saw a 45% increase in the number of enquiries received online.

HomeStart also embarked on a review of its customer lead generating processes to identify potential gains in efficiencies for the mutual benefit of customers and HomeStart. Recommendations resulting from the review are in the process of being implemented and will be completed in the next financial year.

### Affordable housing

HomeStart's Strategic Housing Initiatives Unit works closely with the community housing sector, developers, government agencies and local councils to increase the supply of affordable housing. This includes properties for rental and sale on the private market.

In 2008-09, the Strategic Housing Initiatives Unit continued to develop both lending finance and property development initiatives. From loan products for community housing organisations (CHOs) to the Property Locator website, the year has highlighted the potential of collaboration to create new approaches.

### Affordable rental supply

In 2008-09, HomeStart continued to work closely with

CHOs to increase the supply of rental affordable housing. In July 2008, the Federal Government launched the National Rental Affordability Scheme (NRAS) to help fund affordable rental properties through CHOs. In February 2009, this was expanded through the Federal Stimulus Package funding directed at affordable rental housing. In South Australia, CHOs must receive 'Preferred Provider' status from the Affordable Housing and Asset Strategy Unit (formerly Affordable Housing Innovations Fund) in order to apply for this funding. HomeStart worked with Housing SA to develop assessment criteria for Preferred Providers.

In May 2009, HomeStart settled a loan for Unity Housing to fund sixteen properties in Adelaide, HomeStart also worked closely with Southern Junction Community Services, the Women's Housing Association, Community Housing Limited, Portway Housing Association, Common Ground and others to develop suitable financing options to allow them to grow their business, and thus increase the supply of affordable rental properties. We will start to see the funding outcomes for these CHOs in the 2009-10 financial year.

### Brahma Green

Brahma Green is a joint initiative between HomeStart Finance, the City of Salisbury and McCracken Homes, designed to provide affordable, eco-friendly properties for eligible first home buyers who live or work in the Salisbury area, and whose household income is less than \$59 000 per annum.

HomeStart is providing finance through a specially developed 'Brahma Green Loan', which consists of a HomeStart home loan and a shared appreciation loan of 30%. Interest is not charged on the shared appreciation component of the loan, which keeps repayments at a more affordable level. In return, the customer shares a portion of the property's change in value with the Salisbury Council when it is eventually sold.

In March 2009, applications were officially opened by the Minister for Housing, Hon. Jennifer Rankine MP. We were pleased to receive 98 applications for the homes, from which eleven applicants were randomly selected and taken through the process of securing finance.

The project is believed to be the first of its kind in Australia, and has already attracted attention both locally and nationally. In May 2009, the City of Salisbury won the 'Managing Community Assets' award for this project at the National Awards for Local Government.

## OUR PROGRESS

Construction of the homes at Brahma Green commenced in mid-June 2009, and is estimated to be completed in February 2010. HomeStart has received expressions of interest from several other councils and not-for-profit organisations seeking to develop similar projects based on the Brahma Green model.

### Affordable housing supply

In 2008-09, HomeStart continued to work closely with developers and builders across South Australia to create affordable housing outcomes. Highlights for 2008-09 included signing a Memorandum of Understanding with Delfin Lend Lease to investigate new models of affordable housing provision at Blake's Crossing, and developing a specific project with Devine Homes to apply the Breakthrough Loan for construction within their northern area land releases.

### Aboriginal Housing Company

In 2008-09, HomeStart has continued to explore opportunities for the development of an Aboriginal Housing Company to lift the supply of affordable housing for Aboriginal people.

### Property Locator website

In 2008-09, the Property Locator website underwent further development and expansion, resulting in the sale of 101 affordable homes, bringing the total to 273 home sales since the program's inception.

Created by HomeStart in conjunction with Housing SA's Affordable Housing and Asset Strategy Unit, the Property Locator website lists affordable homes from private developers and builders, as well as Housing SA properties currently on the market, at fixed minimum prices for a limited period of time.

Low and moderate income earners who meet set eligibility criteria can apply to buy one of the affordable homes before it becomes available on the general market.

The Property Locator website also provides an excellent way for developers to showcase new affordable housing, which can help developers meet the state government's 15% affordable housing target for new developments.

Approximately 2500 people visit the Property Locator website each month to look for affordable home ownership opportunities, with 1200 users registering to receive an email alert when a new property is listed.

To date, 100 customers have bought a listed property with a HomeStart loan.

### Community contribution

In 2008-09, HomeStart continued a program of community support including free seminars and a wide range of sponsorships.

### Australian Business Awards

HomeStart was proud to receive an Australian Business Award for 'Community Contribution' – the second time we have won an award in this category. HomeStart was selected from more than 900 entrants nationally for its work with the community, including Brahma Green, sponsorships and seminars.

### Seminars

In 2008-09, HomeStart held fourteen seminars attended by 433 people, providing valuable information and insights into the steps involved in buying a property.

Topics presented at the seminars include the home buying process, saving for a deposit, the importance of budgeting, how to make an offer on a home, the loan approval process, what happens at settlement and the role of a conveyancer.

### Sponsorships

Each year HomeStart sponsors a wide range of organisations, events and sporting teams, reflecting the importance we place on supporting the South Australian community.

In 2008-09, HomeStart sponsored ten major community events and organisations including the Hutt Street Centre's 'Angel for a Day' program and 'Portavin TouchWine' event, the South Australian Young Achiever Awards, Arts Access SA, Fremont-Elizabeth City High School Special Music Centre and Central Districts Football Club.

### StartDreams.com.au

In September 2007, HomeStart launched StartDreams.com.au, a free money management website that helps people learn how to budget and save efficiently to achieve their financial goals, such as saving for a home deposit, a car, tertiary education and more.

StartDreams was partly funded by the SA Film Corporation's Educational Content Fund (ECF), whereby funds are put towards the production of educational products which benefit South Australians.

## OUR PROGRESS

Over the past financial year:

- 5594 people visited StartDreams.com.au
- 217 people became registered users, for a total of 1190 since inception
- 358 new dreams were created, for a total of 4088 since inception
- 453 learning sections were completed for a total of 1889 people since inception.

### Green initiatives

HomeStart has continued to develop and implement initiatives to help create an environmentally friendly workplace. HomeStart's 'Green Team' has undertaken a range of key projects, which include raising awareness of the importance of becoming a 'carbon neutral' organisation, implementing waterless facilities to save thousands of litres of water each year and investigating a recycling program.

## OUR PEOPLE

“ Now I can  
reduce my  
carbon footprint.



## OUR PEOPLE

HomeStart's commitment to its highly-skilled workforce and strong set of values form a vital component of HomeStart's success. We achieve a consistently high level of staff retention and engagement through genuinely valuing our people's contribution to the business, and focusing on their career development and wellbeing.

In June 2009, our dedication to making HomeStart a great place to work was recognised with an Australian Business Award for 'Recommended Employer' – the second time HomeStart has received this award.

### Our culture

The culture at HomeStart is one of open communication and inclusion. HomeStart's annual staff engagement survey plays an important role in ensuring two-way communication and consultation with staff, keeping them informed and empowered.<sup>1</sup> The survey in June 2009 returned a 92% response rate and an overall staff engagement score of 88%.<sup>2</sup> HomeStart consistently performs well against external benchmarks such as the national finance and state government sectors and this year was no exception. In the majority of the key performance indicators, HomeStart scored 10% or more above benchmark.

### Our values

Our values are the guiding principles for our actions and behaviours. From the staff engagement survey, 99% of respondents believe that HomeStart has a strong set of values and 97% are able to describe them.<sup>3</sup> This level of ownership and commitment by staff is integral to the achievement of HomeStart's vision and purpose.

### Communication and engagement

HomeStart's 'Opening Doors' staff day enhances social interaction by providing stimulating activities and communication across divisions and teams. The day provides the opportunity to communicate HomeStart's strategic direction and long-term and short-term goals to staff in an engaging and fun way. As a new initiative this year, part of the day included activities to raise funds for nominated local charities. This was well-received by staff and enabled donations to three charities: Youth Opportunities, Diabetes SA and Drug Arm Australia.

The Consultative Committee comprising staff across all departments, management and human resources, is another vehicle for communication and consultation with staff. The committee discuss and shape employment conditions and policies, raise topics for discussion and monitor the interpretation and application of HomeStart's Enterprise Agreement.

The staff engagement survey result of 85%<sup>3</sup> indicates that staff feel they are well-informed about the activities of our organisation, and sufficient effort is made to obtain their opinions.

### Workplace benefits

To support HomeStart's objective of maintaining a healthy and happy workforce, staff have access to a range of flexible working arrangements and benefits to help them achieve a healthy work/life balance, including:

- job share, work from home, part-time work and compressed weeks
- family and carer's leave
- fourteen weeks paid maternity leave and four weeks paid paternity leave
- ability to purchase additional annual leave
- onsite breastfeeding/carer's room
- annual Healthy Lifestyle Benefit for participation in activities that contribute to a healthy lifestyle
- opportunities to gain experience and knowledge through working in other organisations
- transition to retirement leave
- Income Protection Insurance
- commitment to annual salary reviews.

The staff engagement survey result was 93% favourable,<sup>3</sup> confirming that the working hours of staff are sufficiently flexible to meet their family needs.

### Learning and development

An important element of HomeStart's culture is our commitment to the continuous learning and development of staff. Each year we set a 5% benchmark for training expenditure against total remuneration costs.

<sup>1</sup> Independent research conducted by Quantum Management Indicators on behalf of HomeStart.

<sup>2</sup> >80% is world's best practice.

<sup>3</sup> Favourable includes Strongly Agree and Agree result, >80% Favourable is considered World's Best Practice.



## OUR PEOPLE

In 2008-09, training for staff included tertiary study, specific training courses, leadership and management development programs, and structured and unstructured development activities.

The ‘Lunch Bites’ learning program, which proved popular with staff last year, was organised again in 2008-09. The program comprised of five lunchtime sessions aimed at skill development, fun and wellbeing. Topics covered included tips and tools to become more organised at home and in the office, parental wellbeing, how to use email more effectively, Microsoft Excel special features and PowerPoint presentation skills. The program was well-received by staff and will be a regular feature in future learning and development plans.

In September 2008, the first annual leadership skills assessment was undertaken for all people managers, using a 360 degree survey based on HomeStart’s competency framework. Confidential reports identifying strengths and areas for development were provided to each manager, enabling individuals to reflect on the outcomes of the assessment and make informed decisions as to appropriate activities to help build on existing strengths or address shortcomings. An evaluation of the effectiveness of this approach will be undertaken in the upcoming financial year.

The staff engagement survey produced a 91% favourable result for the amount of training and development staff receive in their role, and 82% favourable for access to career development opportunities.<sup>4</sup>

### Investment in staff training\*

#### Training expenditure as a percentage of total remuneration costs

2008-09*	4.73%
2007-08*	3.13%
2006-07	2.79%
2005-06	2.42%
2004-05	3.58%

\*Excludes training expenditure and remuneration costs relating to CEO and General Managers.

### Professional Management Program

Eleven staff graduated from the University of Adelaide Professional Management Program (PMP) in February 2009. The program outline was developed specifically for HomeStart staff, enabling participants to focus on projects of benefit to HomeStart.

Each team had a senior HomeStart executive as mentor, assisting with the direction and approach to the key projects: ‘Reward and Recognition’ and ‘Performance Management’. The research and analysis that was undertaken by the two project teams has been an influencing factor in HomeStart’s approach to recognition systems and performance management.

The PMP will be offered to a second group of staff next year, and the Graduate Certificate in Management is available to staff who have successfully completed the PMP.

### Performance management

During the year, a project team was formed to select and implement the new technology to support ‘SuccessMap’ – our performance management and development tool. The interim technology solution in place while a new system was being considered resulted in inadequate monitoring and evaluation of SuccessMap performance and development plans.

A questionnaire inviting staff to comment on the existing technology served to highlight these issues and the decision was made to purchase and install a new system. PeopleStreme is a high-quality performance management and development system which will enable SuccessMap to:

- demonstrate the link between individual roles, business unit plans and HomeStart’s financial results
- set and monitor the achievement of business objectives for every staff member
- set development plans for every staff member
- monitor and report on development and career activities undertaken
- enable managers to track the performance of individuals against the achievement of their business objectives
- encourage regular ‘one-on-one’ discussions between managers and staff
- ensure quality mid and end of year performance reviews are undertaken.

<sup>4</sup> Favourable includes Strongly Agree and Agree result, >80% Favourable is considered World’s Best Practice.



## OUR PEOPLE

### Documented individual performance development plan

Employees with	% of total workforce
A review within the past 12 months	58%
A review older than 12 months	41%
No review*	1%

\*New employees at HomeStart.

### Rewards and recognition

In February 2009, a review of current reward and recognition protocols highlighted an opportunity to enhance HomeStart’s approach to rewarding staff for achieving outcomes above the expectations of their role. In the next financial year a new system will be introduced, which aligns staff efforts to a tiered system of rewards and will recognise quiet achievers as well as high achievers. A second outcome of the review is the formation of a project team to examine the potential to link the new system to SuccessMap.

### Equal employment opportunity and diversity

HomeStart is an equal opportunity employer that encourages diversity in its workforce across age, gender, cultural and individual differences. Staff satisfaction with HomeStart’s equal opportunity and valuing diversity practices showed a 93% favourable result.<sup>5</sup>

### Cultural and linguistic diversity

	Male	Female	Total	% of agency	SA community*
Number of employees born overseas	7	13	20	19.0%	20.3%
Number of employees who speak language(s) other than English at home	1	12	13	12.4%	16.6%

\*Benchmarks from ABS Publication Basic Community Profile (SA) Cat No. 2001.0, 2006 Census.

### Maximising opportunities for people with a disability

HomeStart’s services incorporate the recommendations from Promoting Independence – Disability Action Plans for South Australia, to ensure accessibility to people with disabilities. Our internal lending guidelines provide lenders with procedures to assist applicants with an intellectual or physical disability through their loan application. An example of how we assist people with a disability is the ‘Deaf friendly’ headset that is available for customers with a hearing impairment.

HomeStart is an equal opportunity employer, and although information on the number and types of disabilities of existing employees is not available, we ensure that our recruitment policies and procedures are inclusive of those with a disability. HomeStart’s culture is one that embraces diversity and we have been proactive in building relationships with organisations that specialise in finding employment for people with disabilities.

<sup>5</sup> > 80% is world’s best practice.

## OUR PEOPLE

### Employee numbers, gender and status

#### Total number of employees

Persons	105
Full-time equivalents (FTEs) (FTEs shown to 1 decimal place)	94.1

Gender	% Persons	% FTEs
Male	39.0%	42.7%
Female	61.0%	57.3%

#### Number of persons during the 2008-09 financial year

Separated from the agency	6
Recruited to the agency	13

#### Number of persons at 30 June 2009

On leave without pay	0
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### Number of employees by salary bracket

Salary bracket	Male	Female	Total
\$0 - \$47 999	6	18	24
\$48 000 - \$60 999	6	19	25
\$61 000 - \$78 199	9	13	22
\$78 200 - \$98 499	11	4	15
\$98 500+	9	10	19
<b>Total</b>	<b>41</b>	<b>64</b>	<b>105</b>

### Status of employees in current position

Full-time equivalents	Ongoing	Short-term contract	Long-term contract	Other (casual)	Total
Male	1	0	39.2	0	40.2
Female	0	0	53.9	0	53.9
<b>Total</b>	<b>1</b>	<b>0</b>	<b>93.1</b>	<b>0</b>	<b>94.1</b>
Persons	Ongoing	Short-term contract	Long-term contract	Other (casual)	Total
Male	1	0	40	0	41
Female	0	0	64	0	64
<b>Total</b>	<b>1</b>	<b>0</b>	<b>104</b>	<b>0</b>	<b>105</b>

## OUR PEOPLE

### Executives by gender, classification and status

	Ongoing		Contract tenured		Contract untenured		Other (casual)		Total	
	M	F	M	F	M	F	M	F	M	F
<b>Total</b>	0	0	0	0	4	0	0	0	4	0

### Average day's leave per full-time equivalent employee

Leave type	2008-09	2007-08	2006-07	2005-06
Sick leave	5.9	6.7	4.9	8.0
Family carer's leave	1.3	0.8	0.5	0.9
Miscellaneous special leave	1.0	0.3	0.3	0.3

### Aboriginal and/or Torres Strait Islander employees\*

Salary bracket	Aboriginal staff	Total staff	% Aboriginal	Target
\$0 - \$47 999	0	24	0%	2%
\$48 000 - \$60 999	1	25	4.0%	2%
\$61 000 - \$78 199	1	22	4.5%	2%
\$78 200 - \$98 499	0	15	0%	2%
\$98 500+	1	19	5.3%	2%
<b>Total</b>	<b>3</b>	<b>105</b>	<b>2.9%</b>	<b>2%</b>

\*Target from South Australia's Strategic Plan.

### Number of employees by age bracket by gender

Age bracket	Male	Female	Total	% of total workforce	Workforce benchmark*
15-19	0	0	0	0.0%	6.5%
20-24	1	2	3	2.9%	10.3%
25-29	2	10	12	11.4%	11.1%
30-34	5	15	20	19.0%	10.7%
35-39	8	12	20	19.0%	11.7%
40-44	8	8	16	15.2%	11.4%
45-49	8	7	15	14.2%	11.9%
50-54	4	6	10	9.5%	10.3%
55-59	3	3	6	5.7%	8.2%
60-64	2	1	3	2.9%	5.3%
65+	0	0	0	0.0%	2.6%
<b>Total</b>	<b>41</b>	<b>64</b>	<b>105</b>	<b>100.0%</b>	<b>100.0%</b>

\*Source: Australian Bureau of Statistics Australian Demographic Statistics, 6291.0.55.001 Labour Force Status (ST LM8) by sex, age, state, marital status – employed – total from Feb78 Supertable, South Australia at May 2009.



## OUR PEOPLE

### Leadership and management training expenditure

<b>Training and development</b>	<b>Total cost</b>
Total training and development expenditure	\$478 168
Total leadership and management development	\$76 878
% of total expenditure	16.1%

## OUR BUSINESS



“ Now I can feel proud to invite friends over.

## OUR BUSINESS

### Sustainable financial management

In 2008-09, the economic environment has been characterised by declining interest rates, falling investment returns, falls in Adelaide’s median house price, increasing unemployment and falling household incomes. This has presented HomeStart with financial challenges, but has also provided opportunities. In particular, the government stimulus packages for first home buyers and reduced lending activity by some other lenders have enabled HomeStart to increase its loan portfolio.

HomeStart continued to operate profitably this financial year as a result of a constant focus on commercial objectives and a strong risk management culture balanced with our social obligations. Our sound debt management and pricing strategies proved crucial in a changeable market. Improving operating efficiencies and containing costs was also at the forefront and will continue to be a focus in 2009-10. HomeStart’s core business of mortgage lending continued to perform well due to strong growth in our loan portfolio and limited exposure to global increases in borrowing margins.

Operating profit before tax of \$10.2 million (\$6.8 million, 2007-08) was less than the budget forecast of \$11.2 million primarily due to the continuation of declining investment returns. This resulted in Return on Equity of 6.95% against a target range of between 7% and 9%. HomeStart continued to provide substantial payments to government, which this year amounted to \$17.2 million and have totalled \$238.9 million since inception. Under the Community Service Obligation (CSO) subsidy arrangements which commenced in 2007-08, HomeStart will receive a single payment each year from government as a CSO reimbursement. The 2008-09 CSO payment to HomeStart was \$4.0 million.

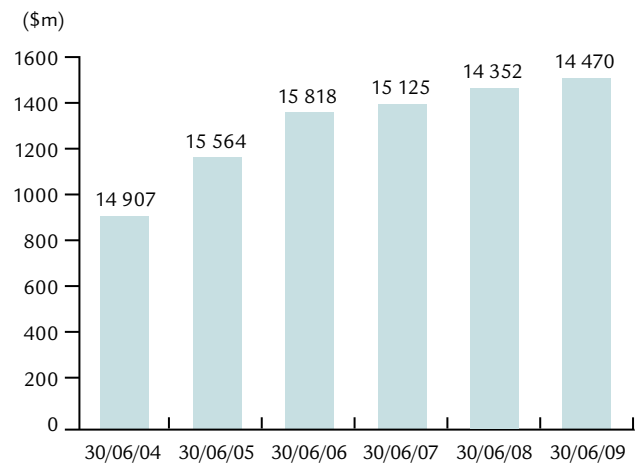
Our debt funding from the South Australian Government Financing Authority (SAFA) grew to \$1303 million against a borrowing limit of \$1350 million. For prudential management purposes HomeStart has set a minimum capital level of 14%. Our actual capital adequacy ratio continues to meet this minimum requirement but has reduced to 15.9% (17.9%, 2007-08) reflecting the growth in the lending portfolio over the last 12 months.

### Asset and liability management

In 2008-09, the lending portfolio grew by 13.7% to \$1449 million (\$1274 million, 2007-08), as a result of record settlement levels and relatively low discharges over the last 12 months. To ensure continued availability of some higher risk products in response to market need, HomeStart

has maintained a prudent approach to credit quality and provisioning by utilising credit risk management systems to inform lending decisions, and to allocate appropriate benchmarks for portions of the lending portfolio.

Portfolio size – no. and value of loans outstanding



### Finance, Treasury and Risk team

The Finance, Treasury and Risk team aims to ensure HomeStart is in the best possible financial position to sustain our business activities, meet our social obligations and achieve financial performance targets.

Supported by sound risk management and corporate governance practices, this highly qualified and experienced team continually strives to improve process efficiency while maintaining strong internal controls. The team’s core functions include:

- treasury and risk management
- corporate finance
- financial accounting
- asset and liability management
- financial forecasting and provisioning
- business reporting and analysis
- property realisation and loss recovery
- tax compliance
- transaction processing
- lending policy and compliance.

The team’s responsibilities are critical to the establishment, analysis and monitoring of strategic performance.

## OUR BUSINESS

A balanced scorecard approach to performance measurement is used, which provides board and management with a holistic view of the organisation to assist in identifying key areas of achievement, areas where corrective action is required and opportunities for the future. The balanced scorecard is based around key performance indicators, identified as part of the annual strategic and business planning process.

### Provisioning

HomeStart has recognised specific and collective provisions of \$13.98 million (\$11.77 million in 2008) against its loan portfolio. These provisions have been calculated in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS) which stipulate that impairment losses should be recognised only if there is objective evidence of impairment as a result of one or more loss events that occurred after the loan was initially settled.

HomeStart was required to comply with AIFRS for the first time in the year ended 30 June 2006. The introduction of AIFRS significantly changed accounting methods for recording transactions and valuing revenue, expense, asset, liability and equity balances. Of particular concern to HomeStart, these changes resulted in a reduction of the collective provision in 2006 from \$12.02 million to \$5.95 million – a level of provisioning which HomeStart believes understates the potential losses embedded in the portfolio.

Credit risk is inherent to any lending decision. Despite the application of a robust risk management framework and sound credit policies, HomeStart accepts that a certain level of losses will be incurred, even without the occurrence of an

identifiable loss event. Under the current financial reporting environment, HomeStart believes that the total potential losses incurred against its loan portfolio will ultimately exceed the value of its provisions. It therefore maintains a general reserve for credit losses of \$11.22 million (\$11.32 million, 2007-08). The amount of the reserve has been determined in accordance with provisioning policies generally accepted within the finance industry prior to the adoption of AIFRS, which HomeStart believes more accurately reflect the credit risk within the portfolio. The creation 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.

The table below shows the level of provisioning as a percentage of the loan portfolio both before and after the adoption of AIFRS in 2006.

HomeStart wishes to emphasise that any losses in excess of the collective provision will impact on annual profit in future periods. Excess losses cannot be debited directly to the general reserve for credit losses. However, management believes that the sum of its specific and collective provisions, together with the general reserve for credit losses, constitutes a pool of capital sufficient to meet potential loan losses in the future.

HomeStart's long held concerns in relation to the requirements of AIFRS, and their potential impact on financial sustainability within the industry, are now shared by the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB).

### Provisioning as % of loan portfolio pre and post AIFRS

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Gross loan portfolio	726 861	818 735	1 024 266	1 186 231	1 224 673	1 258 654	1 410 587
Specific	1 093	661	1 172	1 726	2 214	1 332	4 236
Collective	13 762	15 751	16 658	5 952	7 063	10 440	9 746
Total provisions	14 855	16 412	17 830	7 678	9 277	11 772	13 982
Provisions as a % of gross loan portfolio	2.04%	2.01%	1.74%	.65%	.76%	.94%	.99%
General reserve	-	-	-	11 732	10 532	11 322	11 219
Total provisions and reserve	14 855	16 412	17 830	19 410	19 809	23 094	25 201
Total provisions and reserves as a % of gross loan portfolio	2.04%	2.01%	1.74%	1.64%	1.62%	1.83%	1.79%
Total provisions and reserves as a % of risk weighted assets	3.17%	2.88%	2.38%	2.12%	2.06%	2.43%	2.46%

## OUR BUSINESS

These bodies have formed the Financial Crisis Advisory Group (FCAG), the purpose of which is to assist in the process of considering accounting issues emerging from the Global Financial Crisis.

HomeStart welcomes the Report of the FCAG dated 28 July 2009 and fully supports the observations and recommendation made within it, particularly:

- The financial crisis has exposed weaknesses in accounting standards and their applications. These weaknesses reduced the credibility of financial reporting, which in part contributed to the general loss of confidence in the financial system.
- The weaknesses included the delayed recognition of losses associated with loans.
- The IASB and FASB should explore alternatives to the incurred loss model for loan loss provisioning that use forward-looking information. These alternatives include an expected loss model and a fair value model.

Depending on the outcomes of the work performed by the FCAG, it may be that provisioning will return to pre-AIFRS levels in subsequent accounting periods. HomeStart would welcome any such development and its role in enhancing long-term financial sustainability.

### Funding

HomeStart's lending is financed by its capital base and 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 basis, taking advantage of offsetting risks.

A Treasury 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 and 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 and Liability Committee, is responsible for developing and implementing funding strategies as well as reviewing and monitoring interest rate exposures.

### Risk Transfer Vehicle (RTV)

In July 2000, the HomeStart Board of Management established a Risk Transfer Vehicle (RTV) to minimise and quarantine credit risks. It is a division of HomeStart managed by the Asset and Liability Committee. A Loan Provision Charge is collected from loans settled as a part contribution toward write-offs which is invested in various asset classes in line with the RTV asset allocation strategy. The Asset and Liability Committee engages actuaries to undertake an annual review of projected future loan loss levels. Initially funded with \$20 million, the RTV's investments now total \$39.3 million.

In December 2008, the board approved a new RTV strategic asset allocation strategy following a review by Mercer (Australia) Pty Ltd. Implementation of the new strategy was completed by 30 June 2009.

In April 2009, the Asset and Liability Committee approved an adjustment to the RTV investment long-term target rate from 6.5% to 5.5%. This adjustment acknowledges the diverging performances by all asset classes due to the volatility in global financial markets since August 2007, which continues to significantly affect investment returns. The RTV's return since inception is 3.89%, below the 5.5% long-term target rate.

Financial contributions to the state government in \$million - \$238.9 million paid to the state government since inception

Payment type (\$m)	1995 <sup>2</sup>	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	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	7.1	6.7	7.6	97.2
SAFA <sup>3</sup> 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	0.9	0.9	1.0	7.7
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	2.9	2.3	3.3	39.5
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	2.7	2.2	5.3	47.2
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	2.3	0.0	0.0	47.3
<b>Total paid</b>	<b>6.1</b>	<b>16.0</b>	<b>21.9</b>	<b>16.7</b>	<b>40.2</b>	<b>13.5</b>	<b>13.6</b>	<b>12.6</b>	<b>12.6</b>	<b>12.7</b>	<b>12.7</b>	<b>15.1</b>	<b>15.9</b>	<b>12.1</b>	<b>17.2</b>	<b>238.9</b>

<sup>2</sup>No payments made prior to 1995 <sup>3</sup>South Australian Government Financing Authority

## OUR BUSINESS

### Financial history table

Financial indicators	2004	2005	2006	2007	2008	2009
Operating profit (\$m)	4.4	6.4	7.1	11.9	6.8	10.2
Return on equity	3.2%	4.7%	4.95%	8.07%	4.48%	6.95%
Net interest margin	1.9%	1.7%	1.3%	1.4%	1.3%	1.2%
<b>Balance sheet strength</b>						
Capital (\$m)	136.5	136	145 <sup>1</sup>	150	153.4	138.9
Provisions (\$m)	16.4	17.8	7.7 <sup>1</sup>	9.3	11.8	14.0
Loan assets (\$m)	818.7	1024.3	1186.2	1223.2	1258.7	1432.7
RTV investments (\$m)	23.7	33.5	39.0	45.5	41.9	39.3
Net loan losses (\$m)	0.02	0.02	0.01	0.02	0.01	0.07

<sup>1</sup>HomeStart was required to comply with Australian Equivalents to International Financial Reporting Standards (AIFRS) for the first time in the year ended 30 June 2006.

### Account payment performance

Particulars	Number of accounts paid	Percentage of accounts paid (number)	Value in \$A of accounts paid	Percentage of accounts paid (value)
Paid by the due date	5671	98.7%	\$5 895 621	95.5%
Paid late, within 30 days of due date	56	1.0%	\$194 361	3.1%
Paid more than 30 days from due date	20	0.3%	\$85 205	1.4%

## OUR BUSINESS

### Corporate governance

HomeStart Finance is a statutory corporation established under the *Housing and Urban Development (Administrative Arrangements) Act 1995* and owned by the South Australian Government.

HomeStart is subject to the control of the Minister for Housing, is an agency within the Families and Communities portfolio and works closely with Housing SA.

HomeStart’s 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 administered by a seven member Board of Management. Board members are appointed by the Governor for a term not exceeding three years and are entitled to such remuneration, allowances and expenses as determined by the Governor. The members who held office during 2008-09 are identified on page 34.

Board members are independent of the organisation and are chosen for their expertise and skills in matters related, or complementary, to HomeStart’s business.

The board is responsible to the Minister for Housing for overseeing HomeStart’s business operations with a particular focus on corporate accountability, strategic planning, monitoring, policy development and protecting the state government’s financial and other interests in the organisation.

#### Board attendance

Member	Eligible to attend	Meetings attended
C Long	11	11
J Kouts	11	11
E Bowman	11	11
P Capaldo	11	11
S De Poi	11	8
L Nicholson	11	10
D Garrard	11	9

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

### Audit Committee

This committee is chaired by Paula Capaldo and includes two other board member representatives, along with management personnel and representatives of external and internal auditors. The Audit Committee’s primary responsibilities are:

- monitoring risk management processes and status of operational risks
- reviewing the financial reporting processes and outputs
- reviewing compliance with relevant laws and regulations
- monitoring the internal and external audit functions
- monitoring internal control processes.

#### Audit Committee attendance

Member	Eligible to attend	Meetings attended
C Long	*	-
J Kouts	-	-
E Bowman	-	-
P Capaldo	6	6
S De Poi	-	-
L Nicholson	6	6
D Garrard	6	6

\*Claude Long attends as alternate member on this Committee.

### Asset and Liability Committee

This committee is chaired by Jim Kouts and includes two other board member representatives, along with management personnel. The committee operates to ensure that HomeStart:

- operates in a commercial manner and manages risk prudently
- maintains sound, prudent financial asset, liability and capital management practices that result in the long-term financial viability of HomeStart
- meets the South Australian Government’s performance targets

## OUR BUSINESS

- manages the Risk Transfer Vehicle in accordance with an established charter, policies and procedures
- monitors all credit and market risks.

### Asset and Liability Committee attendance

Member	Eligible to attend	Meetings attended
C Long	*	-
J Kouts	11	11
E Bowman	11	11
P Capaldo	-	-
S De Poi	11	8
L Nicholson	-	-
D Garrard	-	-

\*Claude Long attends as alternate member on this committee.

### Business planning, monitoring and accountability

The board, in conjunction with management, establishes and reviews strategic directions and objectives for the business on an annual basis, taking into account external environmental factors, commercial best practice and internal aims. These activities enable HomeStart to fulfil its purpose and deliver its long-term goals in alignment with government strategies and targets, and policy directions.

Balanced scorecard methodologies are utilised by the board on a monthly basis to monitor all key areas of HomeStart’s business operations. The individual sub-committees of the board also provide feedback to the board on activities undertaken in discharging the duties under their respective charters.

HomeStart incorporates appropriate risk management standards and practices into all significant new business activities or initiatives, in line with the South Australian Government’s Risk Management Policy Statement.

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 on a regular basis against current strategic and business objectives.

### Board member remuneration

Board remuneration is determined by the Governor, on the advice of the Commissioner for Public Employment. Board

member remuneration information is provided at Note 12 to the financial statements.

### Board member benefits

During or since the 2008-09 financial year, no board member has received or become entitled to receive a personal benefit (other than a remuneration benefit included in Note 12 to the financial statements) because of a contract made with HomeStart by:

- the board member
- any organisation of which the board member is a member
- any entity in which the board member has a substantial financial interest
- an associate of the board member (as defined in the *Public Sector Management Act 1995*).

### Executive appointment and remuneration

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

### Risk management

HomeStart’s organisation-wide approach to managing risks ensures 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.

While risk management remains the primary responsibility of the board, each board sub-committee has been assigned specific roles and responsibilities in relation to risk management. The Audit Committee monitors the annual Risk Management Plan and all operational risks including a regular review of the areas of highest risk. The Asset and Liability Committee monitors all credit and market risks.

Risk management is an integral part of our everyday work and is supported 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 (RMS)
- continuous monitoring and re-assessment of risks and internal controls, prompted by the RMS’s interactive email capability and regular discussion at team and executive level

## OUR BUSINESS

- the identification and assessment of risk incidents
- 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 goals, maximise outcomes and mitigate threats. Our planning takes into consideration our external environment, ministerial and government objectives and internal capabilities.

### Credit risk

Credit risk is inherent in HomeStart's core function of lending. Although our business objectives are both social and commercial, this does not compromise our principles. 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 ongoing loan 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 remain at relatively low levels and write-offs continue to compare favourably to other organisations lending in similar markets.

### Market risk

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

### Operational risk

Operational risks are those inherent in the 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 their areas' 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.

### Internal control and assurance

The HomeStart Board of Management is responsible for ensuring that robust and effective internal controls exist 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 identify any areas of improvement. Executives and management are required to confirm to the board that effective risk management, internal control and compliance practices have operated throughout the year. While 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:

- a register of financial authorisations
- internal audit
- dual controls in appropriate areas
- internal policies, procedures, monitoring and reconciliation including a specific Fraud Governance Control Plan
- 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 88.

Internal audit functions in 2008-09 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.

## OUR BUSINESS



### **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 sits on a number of government and private company boards.



### **Sandra De Poi**

#### **Appointed June 2005**

Ms De Poi is the founder and Managing Director of De Poi Consultancy Services Pty Ltd, which is a consultancy company specialising in injury management and employment services. She is also a director of the WorkCover Board of South Australia.



### **Jim Kouts – Deputy Chair**

#### **Appointed November 2005**

Mr Kouts is the Group Manager Corporate Affairs for International Power Australia. He has wide experience across a range of industry and government sectors as a senior executive and strategist. 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.



### **David Garrard**

#### **Appointed 14 March 2008**

Mr Garrard is a consultant and member of the JP Morgan Advisory Council. He is also a member of the Investment Advisory Board of The Salvation Army and an executive coach with Global Coaching Partnership. He has held various positions with JP Morgan both in

Australia and the UK. David has a strong background in equities and derivatives.



### **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 and is

a member of the Public Sector Performance Commission.



### **Lindsay Nicholson**

#### **Appointed December 2005**

Ms Nicholson is a lawyer who previously practiced in the areas of personal injury and family law. She sits on the Board of the State Opera of South Australia and was formerly a member of the Legal Practitioners' Disciplinary Tribunal.



### **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 is currently a board member of

SA Great, the Deloitte Foundation and has previously been a board member of the South Australian Museum, and Deputy President of the Australian Institute of Management – SA Board.

## OUR BUSINESS

### Statutory information

#### Occupational health, safety, welfare & injury management system (OHSW&IM)

HomeStart places a high priority on its responsibility to provide and maintain a safe working environment and safe systems of work for all its employees, contractors, consultants, visitors and others. The elements of this commitment are integrated into HomeStart's OHSW&IM system.

Our Chief Executive Officer is committed to ensuring that our OHSW&IM system is performing to expectations. General Managers, managers and supervisors are responsible for its effective implementation, monitoring and review. Employees are involved in the consultation process to support HomeStart's achievement of its safety goals and targets.

HomeStart continues to apply performance standards and measures that meet the strategic targets of the government's Safety in the Public Sector 2007-2010 Strategy and the National OHS Strategy 2002-2012. Implementation of our enhanced OHSW&IM system framework continues to ensure compliance with the WorkCover Performance Standards for Self Insurers.

#### Sustainable commitment

HomeStart ran a successful Weight Watchers at Work program during the year which focused on helping to increase the healthy life expectancy of our staff, with a flow-on effect to their families and the wider community. Healthy eating and staff wellbeing is encouraged and supported throughout the organisation.

More than 50% of our staff participated in the flu vaccination program, and we have seventeen participants in our corporate blood donor program.

#### Financial accountability

HomeStart had no workplace injury claims for the year and therefore achieved an overall reduction of 100% in total claims expenditure.

Expenditure for OHSW&IM for the year amounted to approximately \$9100 and was used to achieve outcomes for safety improvement such as staff training, purchase of ergonomic equipment and mechanical aids, electrical testing and tagging of equipment and other OHSW&IM requirements that ensure our compliance with legislation

and support our proactive approach to continuous improvement and injury prevention.

#### Integrated risk management

Learning, development and competency are an important part of HomeStart's OHSW&IM system. Staff training needs are regularly monitored through a combination of methods and in consultation with employees, programs are developed and delivered to ensure the individual's health, safety and wellbeing needs, together with compliance requirements of the organisation, are met.

Comprehensive OHSW&IM inductions were completed with all new staff which incorporated a full ergonomic workstation assessment. Inductions were also completed with all staff who returned to work from a long-term leave of absence of more than three months. Contractors were appropriately inducted and provided with a copy of our formal Contractor's Agreement.

The Emergency Planning Committee meets regularly on an ongoing basis to identify all existing and potential emergency situations relative to the HomeStart worksite.

Regular risk and hazard management inspections were undertaken and all identified hazards were assessed to determine associated risks, controlled using the most suitable measures and corrected in a timely manner. Prompt reporting of all near misses ensured proactive action was taken to reduce the likelihood of incidents resulting in injury.

HomeStart promotes safety management as a core business value and adopts sound management practices when consulting with employees and the OHSW&IM Committee, to develop effective planning processes that ensure the successful implementation, ongoing monitoring and continuous improvement of the OHSW&IM system.

#### Rigorous evaluation

HomeStart's proactive approach to health and safety is shown in our safety implementation plans and monitoring of internal controls. HomeStart achieves standards above best practice, and this, together with no accidents, no injury claims, and an overall low level of incidents and related expenditure, has resulted in an excellent performance over 2008-09.

Ongoing review and evaluation of our systems and processes helps ensure performance improvement and continued compliance.

## OUR BUSINESS

### Occupational health, safety and welfare and injury management statistics

There were no notifiable occurrences, injuries or notices served in the past financial year.

### Agency gross workers compensation expenditure for 2008-09 compared with 2007-08<sup>1</sup>

#### Occupational health, safety and welfare and injury management statistics OHS Notices and Corrective Action taken

Number of notifiable occurrences pursuant to OHS&W Regulations Division 6.6	Nil
Number of notifiable injuries pursuant to OHS&W Regulations Division 6.6	Nil
Number of notices served pursuant to OHS&W Act s35, s39 and s40 (default, improvement and prohibition notices)	Nil

Expenditure	2008-09 (\$m)	2007-08 (\$m)	Variation (\$m) + (-)	% Change + (-)
Income maintenance	\$0	\$0	\$0	-
Lump sum settlements Redemptions - Sect.42	\$0	\$0	\$0	-
Lump sum settlements Permanent disability - Sect. 43	\$0	\$0	\$0	-
Medical/Hospital costs combined	\$0	\$0.000154	-\$0.000154	- 100%
Other	\$0	\$0	\$0	0%
<b>Total claims expenditure</b>	<b>\$0</b>	<b>\$0.000154</b>	<b>-\$0.000154</b>	<b>- 100%</b>

<sup>1</sup>100% reduction achieved as there were no new or existing claims or medical costs in the past financial year.

## OUR BUSINESS

Meeting safety performance targets<sup>2</sup>

	Base:	Performance:			Final
	2005-06	12 months to end of June 2009*			target
	Numbers or %	Actual	Notional quarterly target**	Variation	Numbers or %
1. Workplace fatalities	0	0	0	0	0
2. New workplace injury claims	2	0	0	0	0
3. New workplace injury claims frequency rate	N/A	N/A	N/A	N/A	N/A
4. Lost time injury frequency rate***	N/A	N/A	N/A	N/A	N/A
5. New psychological injury claims	0	0	0	0	0
6. Rehabilitation and return to work:					
6a. Early assessment within 2 days	0%	N/A	80%	N/A	80% or more
6b. Early intervention within 5 days	100%	N/A	80%	N/A	80% or more
6c. Return to work within 5 business days	100%	N/A	75%	N/A	75% or more
7. Claim determination:					
7a. Claims determined in 10 business days	100%	N/A	75%	N/A	75% or more
7b. Claims still to be determined after 3 months	0%	N/A	3%	N/A	3% or less
8. Income maintenance payments for recent injuries:					
8a. 2008-09 Injuries (at 24 months development)	\$0.00	\$0.00	\$0.00	\$0.00	below prev 2 yrs' avg
8b. 2008-09 Injuries (at 12 months development)	\$0.00	\$0.00	\$0.00	\$0.00	below prev 2 yrs' avg

There were no new claims in the past financial year.

\*Except for Target 8, which is YTD. For Targets 5, 6c, 7a and 7b, performance is measured up to the previous quarter to allow reporting lag.

\*\*Based on cumulative reduction from base at a constant quarterly figure. \*\*\*Injury frequency rate for new lost-time injury/disease for each one million hours worked. This frequency rate is calculated for benchmarking and is used by the WorkCover Corporation. Lost Time Injury frequency rate (new claims): number of new cases of lost-time injury/disease for year x 1 000 000 number of hours worked in the year.

<sup>2</sup>Information available from IDEAS RS/SIMS (SIPS target report)

## OUR BUSINESS

### **Freedom of Information Act 1991 – Information Statement**

HomeStart Finance is a statutory corporation established by the state government in 1989 to facilitate home ownership opportunities for South Australians, with a particular focus on low to moderate income households. HomeStart operates in a commercial manner to achieve financial and other performance benchmarks that are established and agreed with the South Australian Government.

HomeStart delivers a residential mortgage lending program in conjunction with a network of four lending agencies (including BankSA, The Home Loan Centre, HomeLoans Plus and Bernie Lewis Home Loans) and other finance programs to support community housing and aged care accommodation.

### **Policy documents**

The following policy documents are held by HomeStart Finance and are available on request free of charge:

- HomeStart home loan brochures
- HomeStart Guide to Fees and Charges
- HomeStart Comparison Rate Schedules
- HomeStart Privacy Policy
- HomeStart Annual Report
- HomeStart customer newsletters.

Copies of these documents can be accessed from the [homestart.com.au](http://homestart.com.au) website or by contacting the Freedom of Information Officer (Ph 8203 4777). Copies of HomeStart's Information Statement can be obtained by contacting the Freedom of Information Officer during normal business hours.

### **Access to personal information**

Customers are entitled to obtain access to their personal information held by HomeStart in accordance with the *Freedom of Information Act 1991*. HomeStart may deny a request for access if required, obliged or authorised to do so under any applicable law, including the *Freedom of Information Act 1991*. Any request for access to personal information must be in writing and must be sent to the Freedom of Information Officer.

HomeStart will respond to all requests for information under the *Freedom of Information Act 1991* within 30 days of receipt of the request. Fees and charges may be payable.

### **Contractual arrangements**

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

### **Overseas travel**

No HomeStart staff member made an overseas trip during 2008-09.

### Consultancy expenditure 2008-09

Consultant Below \$10 000	Purpose	Cost
5		
<b>Total consultancies below \$10 000</b>		<b>\$28 371</b>
Consultant \$10 000 - \$50 000	Purpose	Cost
Ernst & Young	Advice on collective provision, Australian International Financial Reporting Standards, Business activity statement	
Unique World	Electronic Document Record Management System project	
<b>Total consultancies \$10 000 - \$50 000</b>		<b>\$49 452</b>
Consultant Above \$50 000	Purpose	Cost
Pricewaterhouse Coopers	Capacity review, Anti-Money Laundering advice	
Experience Matters	Electronic Document Record Management System project, Systems business review	
<b>Total consultancies above \$50 000</b>		<b>\$173 454</b>

# FINANCIAL STATEMENTS

“ Now I can choose  
my house-mates.



**FINANCIALS****Certification of the Financial Report**


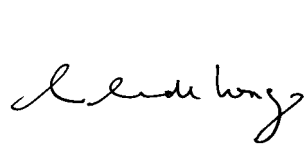
For the year ended 30 June 2009

We certify that the attached general purpose financial report for HomeStart Finance:

- complies with relevant Treasurer's Instructions issued under section 41 of the *Public Finance and Audit Act 1987*, and relevant Australian Accounting Standards
- is in accordance with the accounts and records of HomeStart Finance
- presents a true and fair view of the financial position of HomeStart Finance as at 30 June 2009 and the results of its operations and cash flows for the financial year.

We certify that the internal controls employed by HomeStart Finance over its financial reporting and its preparation of the general purpose financial report have been effective throughout the reporting period and there are reasonable grounds to believe the authority will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the board members.



Claude Long  
Chair  
15 September 2009

Jim Kouts  
Deputy Chair  
15 September 2009



Gary Storkey  
Chief Executive Officer  
15 September 2009



John Comley  
General Manager  
Corporate Services &  
Chief Financial Officer  
15 September 2009

**FINANCIALS****Statement of  
Comprehensive Income**

For the year ended 30 June 2009

The total comprehensive result is attributable to the state government as owner.

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

	Note No.	2009 \$'000	2008 \$'000
Interest income	5	99 431	102 047
Interest expense	5	(65 555)	(75 339)
<b>Net interest income</b>	<b>5</b>	<b>33 876</b>	<b>26 708</b>
Other income	6	13 456	15 750
Net gain/(loss) from disposal of assets	7	(1)	1
Bad and impaired loans expense	8	(2 313)	(2 588)
Government guarantee fee	9	(7 745)	(6 640)
Loan manager fees		(5 236)	(5 140)
Employee expenses	10	(8 417)	(7 813)
Depreciation and amortisation expense	14	(576)	(526)
Other expenses	15	(12 878)	(12 965)
<b>Profit before income tax equivalents expense</b>		<b>10 166</b>	<b>6 787</b>
Income tax equivalents expense	2.5	(3 050)	(2 036)
<b>Profit after income tax equivalents expense</b>		<b>7 116</b>	<b>4 751</b>
Derivative (loss)/gain recognised directly in equity		(15 957)	2 874
<b>Total comprehensive result</b>		<b>(8 841)</b>	<b>7 625</b>

**FINANCIALS****Statement of  
Financial Position**

As at 30 June 2009

Total equity is attributable to the state government as owner.

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

<b>Assets</b>	<b>Note No.</b>	<b>2009 \$'000</b>	<b>2008 \$'000</b>
Cash and cash equivalents	35.1	4 120	3 940
Financial investments designated at fair value through profit or loss	17	69 589	57 481
Financial investments – held to maturity	18	10 201	-
Derivative financial instruments	31.2.2	-	5 204
Loans and advances	19	1 377 153	1 229 083
Other financial assets	20	1 261	1 523
Property, plant and equipment	21	1 987	2 229
Intangible assets	22	248	313
Other assets	23	380	200
<b>Total assets</b>		<b>1 464 939</b>	<b>1 299 973</b>
<b>Liabilities</b>			
Payables	24	4 413	5 276
Derivative financial instruments	31.2.2	10 776	-
Short term borrowings	25	261 004	40 634
Long term borrowings	25	1 042 000	1 093 500
Employee benefits	26	1 130	1 080
Income tax payable	27	1 374	1 655
Provision for dividend	28	1 943	1 561
Other liabilities	29	3 376	2 810
<b>Total liabilities</b>		<b>1 326 016</b>	<b>1 146 516</b>
<b>Net assets</b>		<b>138 923</b>	<b>153 457</b>
<b>Equity</b>			
Reserves	30	466	16 526
Retained earnings	30	138 457	136 931
<b>Total equity</b>		<b>138 923</b>	<b>153 457</b>

## FINANCIALS

### Statement of Changes in Equity

For the year ended 30 June 2009

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

Note No.	Retained earnings \$'000	General reserve for credit losses \$'000	Derivatives valuation reserve \$'000	Total \$'000
<b>Balance at 30 June 2007</b>	<b>136 771</b>	<b>10 532</b>	<b>2 330</b>	<b>149 633</b>
Profit after income tax equivalents expense for 2007-08	4 751	-	-	4 751
Derivative gain recognised directly in equity	-	-	2 874	2 874
<b>Total comprehensive result for 2007-08</b>	<b>4 751</b>	<b>-</b>	<b>2 874</b>	<b>7 625</b>
Transfer to/(from) credit loss reserve	(790)	790	-	-
<b>Transactions with state government as owner</b>				
Dividends paid/payable	(3 801)	-	-	(3 801)
<b>Balance at 30 June 2008</b>	<b>136 931</b>	<b>11 322</b>	<b>5 204</b>	<b>153 457</b>
Profit after income tax equivalents expense for 2008-09	7 116	-	-	7 116
Derivative loss recognised directly in equity	-	-	(15 957)	(15 957)
<b>Total comprehensive result for 2008-09</b>	<b>7 116</b>	<b>-</b>	<b>(15 957)</b>	<b>(8 841)</b>
Transfer to/(from) credit loss reserve	103	(103)	-	-
<b>Transactions with state government as owner</b>				
Dividends paid/payable	(5 693)	-	-	(5 693)
<b>Balance at 30 June 2009</b>	<b>138 457</b>	<b>11 219</b>	<b>(10 753)</b>	<b>138 923</b>

**FINANCIALS****Statement of Cash Flow**

For the year ended 30 June 2009

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

<b>Cash flows from operating activities</b>	<b>Note No.</b>	<b>2009 \$'000</b>	<b>2008 \$'000</b>
<b>Cash inflows</b>			
Interest received on:			
Cash		85	124
Loans and advances		98 321	102 178
Fees and commissions received		1 183	1 058
Bad debts recovered		115	148
EquityStart Grant received		2 651	3 840
Community Service Obligation subsidy received		4 003	3 970
Other		1 421	1 122
<b>Total cash inflows from operating activities</b>		<b>107 779</b>	<b>112 440</b>
<b>Cash outflows</b>			
Payments to employees		(8 351)	(7 723)
Payments to suppliers		(5 297)	(5 283)
Payments to loan managers		(5 305)	(4 981)
Borrowing costs paid		(66 716)	(74 429)
Government guarantee fee paid		(7 627)	(6 665)
Income tax equivalents paid		(3 331)	(2 328)
<b>Total cash outflows from operating activities</b>		<b>(96 627)</b>	<b>(101 409)</b>
<b>Net cash provided by operating activities</b>	35.2	<b>11 152</b>	<b>11 031</b>

**FINANCIALS****Statement of Cash Flow (cont.)**

For the year ended 30 June 2009

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

<b>Cash flows from investing activities</b>	<b>Note No.</b>	<b>2009 \$'000</b>	<b>2008 \$'000</b>
<b>Cash inflows</b>			
Proceeds from sale of office and computer equipment	7	2	6
Proceeds from sale of investments		50 031	-
Customer loans repaid		206 335	230 350
<b>Total cash inflows from investing activities</b>		<b>256 368</b>	<b>230 356</b>
<b>Cash outflows</b>			
Payments for property, plant and equipment		(241)	(288)
Payments for software		(41)	(223)
Payments for investments		(52 811)	(1 124)
Customer loans settled		(377 806)	(275 790)
<b>Total cash outflows from investing activities</b>		<b>(430 899)</b>	<b>(277 425)</b>
<b>Net cash used in investing activities</b>		<b>(174 531)</b>	<b>(47 069)</b>

**FINANCIALS****Statement of Cash Flow (cont.)**

For the year ended 30 June 2009

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

	Note No.	2009 \$'000	2008 \$'000
<b>Cash flows from financing activities</b>			
<b>Cash inflows</b>			
Proceeds from borrowings		879 000	293 750
<b>Total cash inflows from financing activities</b>		<b>879 000</b>	<b>293 750</b>
<b>Cash outflows</b>			
Dividends paid		(5 311)	(2 240)
Repayment of borrowings		(710 130)	(254 500)
<b>Total cash outflows from financing activities</b>		<b>(715 441)</b>	<b>(256 740)</b>
<b>Net cash provided by financing activities</b>		<b>163 559</b>	<b>37 010</b>

	Note No.	2009 \$'000	2008 \$'000
<b>Net increase in cash and cash equivalents</b>		<b>180</b>	<b>972</b>
Cash and cash equivalents at the beginning of the financial year		3 940	2 968
<b>Cash and cash equivalents at the end of the financial year</b>	35.1	<b>4 120</b>	<b>3 940</b>

**FINANCIALS****Notes to the  
Financial Statements**

For the year ended 30 June 2009

**Note Index**

Objectives of HomeStart Finance	Note 1
Summary of significant accounting policies	Note 2
Government/non-government disclosures	Note 3
Segment reporting	Note 4
<b>Income notes</b>	
Net interest income	Note 5
Other income	Note 6
Net gain/(loss) from disposal of assets	Note 7
Bad and impaired loans expense	Note 8
<b>Expense notes</b>	
Government guarantee fee	Note 9
Employee expenses, remuneration and number of employees	Note 10
Key management personnel disclosures	Note 11
Related parties	Note 12
Economic dependency	Note 13
Depreciation and amortisation expense	Note 14
Other expenses	Note 15
Auditor's remuneration	Note 16
<b>Asset notes</b>	
Financial investments designated at fair value through profit or loss	Note 17
Financial investments - held to maturity	Note 18
Loans and advances	Note 19
Other financial assets	Note 20
Property, plant and equipment	Note 21
Intangible assets	Note 22
Other assets	Note 23
<b>Liabilities notes</b>	
Payables	Note 24
Borrowings	Note 25
Employee benefits	Note 26
Income tax equivalents payable	Note 27
Provision for dividend	Note 28
Other liabilities	Note 29
<b>Equity note</b>	
Equity	Note 30
<b>Other notes</b>	
Financial risk management	Note 31
Fair value and categorisation of financial instruments	Note 32
Unrecognised contractual arrangements	Note 33
Contingent liabilities	Note 34
Cash flow reconciliation	Note 35
Events after balance date	Note 36

## FINANCIALS

### NOTE 1

#### Objectives of HomeStart Finance

HomeStart was established as a statutory corporation under the *Housing and Urban Development (Administrative Arrangements) (HomeStart Finance) Regulations 2007* and reports to the Minister for Housing.

HomeStart's purpose is to make home ownership possible for more South Australians.

HomeStart's vision is to lead the nation in affordable housing finance solutions.

#### 1.1 HomeStart Home Loan

HomeStart provides home loans for low to moderate income households and other needs groups with repayments linked to income and the Consumer Price Index (CPI). The HomeStart Home Loan is the principal loan product. The outstanding value of HomeStart Home Loans at 30 June 2009 was \$1302.1 million (\$1182.2 million, 2007-08).

#### 1.2 Subsidies

HomeStart provides subsidised Advantage Loans of up to \$29 400 to lower income earners. The Advantage Loan is interest free if it is repaid within five years. The Advantage Loan interest is calculated by reference to the CPI but this interest is waived if the Advantage Loan is repaid in full prior to its 5th anniversary. As at 30 June 2009 the interest rate applying to Advantage Loans was 0.00% (3.29%, 2007-08). The outstanding value of Advantage Loans at 30 June 2009 was \$39.3 million (\$39.8 million, 2007-08).

Until 30 June 2007, HomeStart did not receive any funding with respect to this subsidy. For the year ended 30 June 2009 HomeStart received a Community Service Obligation (CSO) subsidy payment of \$2.12 million (\$2.168 million, 2007-08) from the Department of Treasury and Finance for the Advantage Loan subsidy provided.

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 2009 was \$38.7 million (\$34.5 million, 2007-08).

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 program.

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

#### 1.3 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 Basis of preparation

This financial report is a general purpose financial report. The accounts have been prepared in accordance with applicable Australian Accounting Standards, Treasurer's Instructions and Accounting Policy Statements (APS) promulgated under the provisions of the *Public Finance and Audit Act 1987* (PFAA).

HomeStart's Statement of Comprehensive Income, Statement of Financial Position and Statement of Changes in Equity have been prepared on an accrual basis and are in accordance with the historical cost convention except that the following assets and liabilities are stated at their fair value: derivative financial instruments; financial assets at fair value through profit or loss; financial instruments classified as available-for-sale; and subsidised loans and advances.

Income 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.

The financial statements have been prepared based on a twelve month period and presented in Australian currency.

#### 2.1.1 Changes in accounting policies

Except for the amendments to AASB 101 Presentation of Financial Statements (September 2007 version) and AASB 2007-08 Amendments to Australian Accounting Standards

## FINANCIALS

arising from AASB 101, which HomeStart has early adopted, Australian accounting standards and interpretations that have recently been issued or amended but are not yet effective, have not been adopted by HomeStart for the period ended 30 June 2009.

HomeStart has assessed the impact of the new and amended standards and interpretations and considers there will not be a material impact on the accounting policies or the financial report of HomeStart.

### 2.1.2 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.

### 2.2 Statement of compliance

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Except for the amendments to AASB 101 *Presentation of Financial Statements* (September 2007 version) and AASB 2007-08 *Amendments to Australian Accounting Standards arising from AASB 101*, which HomeStart has early adopted, Australian accounting standards and interpretations that have recently been issued or amended but are not yet effective have not been adopted by HomeStart for the period ended 30 June 2009.

### 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 an Australian Accounting Standard has 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.

### 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 equivalents liability is based on the Treasurer's accounting profit method, which requires that the corporate income tax rate of 30% (30%, 2007-08) 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 (GST).

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

- the amount of GST incurred by HomeStart as a purchaser 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 absorbs GST costs passed on by suppliers. Reduced input tax credits can only be claimed on a very limited number of input costs.

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

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

### 2.6 Income

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

## FINANCIALS

### 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

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 Statement of Comprehensive Income, 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 four-year (for Advantage Loans) and ten-year (for EquityStart Loans) South Australian Government Financing Authority (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 status 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

Income directly attributable to the origination of loans is deferred and recognised in the Statement of Comprehensive Income 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 state government 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.

In the 2008 financial year, the Department of Treasury and Finance commenced making a CSO subsidy payment to HomeStart as compensation for the provision of Advantage Loan and credit quality subsidies as well as administering the Nunga Loan program.

HomeStart also 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 program.

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

### 2.6.6 Investment income

For financial investments designated as fair value through profit or loss, changes in fair value of investments (both realised and unrealised) are recognised in the Statement of Comprehensive Income as they occur.

Distribution income is recognised when received.

For financial investments classified as held to maturity, interest income is recognised as it accrues.

### 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 income 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 Statement of Comprehensive Income when, and only when, it is probable that the flow of economic benefits from the entity will occur and can be reliably measured.

## FINANCIALS

### 2.7.1 Interest expense

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 impaired loans expense

Bad and impaired loans are expensed in accordance with the accounting policy described in note 2.11.

### 2.7.4 Loan origination fees paid or payable

Fees directly attributable to the origination of loans are deferred and recognised in the Statement of Comprehensive Income 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 2.17.

### 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 Statement of Comprehensive Income 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 Statement of Financial Position 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)
- loans and advances (refer to accounting policy note 2.11)
- investments (Unit Trusts, SAFA Cash Management Fund, bonds and the shared appreciation component of Breakthrough Loans) (refer to accounting policy note 2.12)
- derivative financial instruments (refer to accounting policy note 2.13)
- financial liabilities (refer to accounting policy note 2.14).

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 rate method
- held to maturity financial assets – measured at amortised cost
- financial instruments designated 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.

## FINANCIALS

### 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.

As at 30 June 2009 HomeStart held investment bonds issued by state government and non-government institutions.

### 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.

HomeStart has designated the shared appreciation component of the Breakthrough Loan, as well as its investments in unit trusts and the SAFA Cash Management Fund, as financial assets at fair value through profit or loss.

Derivatives are also categorised as financial assets at fair value through profit or loss unless they are effective hedges of cash flows.

### 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

#### Loans measured at amortised cost

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 values, 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

HomeStart assesses at each financial year end, whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the end of the financial year ('a loss event') and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

## FINANCIALS

Loans and advances are individually assessed for impairment. If HomeStart determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics, taking into account asset type; geographical location; collateral; past due status; and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of projected cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based, and to remove the effects of conditions in the historical period that do not currently exist. In addition, HomeStart uses its experienced judgement to estimate the amount of an impairment loss.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to take into consideration HomeStart's actual loss experience.

For loans and receivables, the amount of impairment loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using a provision account and the amount of the loss is included in the Statement of Comprehensive Income.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognised in the Statement of Comprehensive Income.

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 former Australian Generally Accepted Accounting Principles (AGAAP), 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 Statement of Comprehensive Income.

## 2.12 Investments

### Held to maturity investments

As at 30 June 2009 HomeStart held investment bonds with a face value of \$10 million issued and/or guaranteed by the Commonwealth and State Governments.

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 Statement of Comprehensive Income when the investments are derecognised or impaired.

## FINANCIALS

### Investments at fair value through profit or loss

HomeStart has designated the shared appreciation component of the Breakthrough Loan, as well as its investments in unit trusts and the SAFA Cash Management Fund, 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 Statement of Comprehensive Income in the period in which they arise.

### Shared appreciation component of the Breakthrough Loan

The Breakthrough Loan facility includes two loan components:

- A standard loan component with standard interest rates and repayments which operates under identical terms as HomeStart's current standard loan products. This portion of the Breakthrough Loan is recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method and taking account of principal repayments and impairment losses.
- A shared appreciation component where repayment of the loan balance is generally deferred until sale of the property, upon which time the loan balance is repaid along with a scheduled percentage of the appreciated value of the property.

The shared appreciation component is measured at fair value through profit or loss. The fair value of this loan component is based on independent valuations of the properties pledged as collateral. Gains or losses arising from changes in fair value are presented in the Statement of Comprehensive Income 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 derivatives to hedge this risk. Derivative financial instruments are not held for speculative purposes.

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.

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 calculated as the present value of the estimated future cash flows determined using the yield curve at year end.

HomeStart designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or hedges of highly probable forecast transactions (cash flow hedges). 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. HomeStart 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 31.2.2. Movements in the derivatives valuation reserve in equity are shown in the Statement of Changes in Equity.

### 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 Statement of Comprehensive Income.

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 Statement of Comprehensive Income with all subsequent gains or losses recognised through the Statement of Comprehensive Income.

### 2.14 Interest-bearing borrowings

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 Statement of Comprehensive Income over the period of the borrowings on the effective interest rate basis.

## FINANCIALS

### 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 2.15.4) and impairment losses. Where assets are acquired at no value, or minimal value, they are recorded at their fair value in the Statement of Financial Position. 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.

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.

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 website 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 website, and ongoing costs of maintenance during the operating phase are considered to be expenses.

Costs involved in building or enhancing a website 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)
- 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 three 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 Statement of Comprehensive Income, 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.

## FINANCIALS

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 and amortisation of 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, employment on-costs, interest, guarantee fee and loan manager fees.

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

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

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

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 6.5 years (6.5 years, 2007-08) 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 and 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.

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 is 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.

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.

## FINANCIALS

### 2.18 Insurance

HomeStart has arranged, through SAFA, SAICORP division, 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

The preparation of the financial report requires the use of certain accounting estimates and requires HomeStart to exercise its judgement in the process of applying HomeStart's accounting policies. 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 areas involving a higher degree of estimate and judgement 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 outlined 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

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 Statement of Comprehensive Income. 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 income, expenditure, assets and liabilities according to whether the transactions are with entities internal or external to the state 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.

**FINANCIALS****NOTE 5****Net interest income**

<b>Interest received/receivable from entities external to the state government</b>	<b>2009 \$'000</b>	<b>2008 \$'000</b>
Loans and advances	95 242	100 662
Subsidised loans effective interest income	3 649	3 330
Subsidised loans fair value expense	(1 844)	(4 163)
Loan origination income amortisation	2 304	2 093
Deposits with banks	80	125
<b>Total interest received/receivable from entities external to the state government</b>	<b>99 431</b>	<b>102 047</b>
<b>Interest paid/payable to entities within the state government</b>		
Borrowings from SAFA	(65 555)	(75 339)
<b>Total interest paid/payable to entities within the state government</b>	<b>(65 555)</b>	<b>(75 339)</b>
<b>Net interest income</b>	<b>33 876</b>	<b>26 708</b>

## FINANCIALS

### NOTE 6

#### Other income

During the financial year, HomeStart received \$2.65 million (\$3.84 million, 2007-08) 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 program.

In the 2008 financial year, the Department of Treasury and Finance commenced making a CSO subsidy payment to HomeStart as compensation for the provision of Advantage Loan and credit quality subsidies, as well as administering the Nunga Loan program.

Government grants relating to costs are deferred and recognised in the Statement of Comprehensive Income over the period necessary to match them with the costs that they are intended to compensate – refer to accounting policy note 2.6.5.

<b>Other income received/receivable from entities external to the state government</b>	<b>2009 \$'000</b>	<b>2008 \$'000</b>
Fees and charges	2 938	2 805
Bad debts recovered	152	182
Unrealised change in fair value of loans	360	1 097
Realised change in fair value of loans	22	2
Managed funds distribution	788	1 507
Other	37	43
<b>Total other income received/receivable from entities external to the state government</b>	<b>4 297</b>	<b>5 636</b>
<b>Other income received/receivable from entities within the state government</b>		
Managed funds distribution	168	-
EquityStart grant	2 526	3 596
Community Service Obligation (CSO) subsidy	4 003	3 970
Realised change in market value of investments	1 912	1 555
Other	550	993
<b>Total other income received/receivable from entities within the state government</b>	<b>9 159</b>	<b>10 114</b>
<b>Total other income</b>	<b>13 456</b>	<b>15 750</b>

**FINANCIALS****NOTE 7****Net gain/(loss) from disposal of assets**

	2009 \$'000	2008 \$'000
Proceeds from disposal of assets	2	6
Net book value of assets disposed	(3)	(5)
<b>Total net gain/(loss) from disposal of assets</b>	<b>(1)</b>	<b>1</b>

**NOTE 8****Bad and impaired loans expense**

	2009 \$'000	2008 \$'000
Bad and impaired loans expense	72	15
Increase in provision for impairment	2 241	2 573
<b>Total bad and impaired loans expense</b>	<b>2 313</b>	<b>2 588</b>

**NOTE 9****Government guarantee fee**

HomeStart paid a guarantee fee of 0.64% of outstanding borrowings to the Department of Treasury and Finance in 2008-09 (0.60%, 2007-08).

	2009 \$'000	2008 \$'000
Government guarantee fee paid or payable to entity within the state government	7 745	6 640
<b>Total Government guarantee fee paid to entity within the state government</b>	<b>7 745</b>	<b>6 640</b>

**FINANCIALS****NOTE 10****Employee expenses, remuneration and number of employees**

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 \$2.60 million (\$2.00 million, 2007-08).

HomeStart employed 105 people at the end of the reporting period (98, 2007-08).

<b>Employee expenses</b>	<b>2009 \$'000</b>	<b>2008 \$'000</b>
Salaries and wages	6 957	6 637
Long service leave	126	18
Annual leave	47	39
Employment on-costs – superannuation	650	600
Employment on-costs – other	372	365
Board fees	265	154
<b>Total employee expenses</b>	<b>8 417</b>	<b>7 813</b>

<b>Remuneration of employees</b>	<b>2009 No.</b>	<b>2008 No.</b>
The number of employees whose remuneration received or receivable falls within the following bands:		
\$100 000 to \$109 999	3	4
\$110 000 to \$119 999	9	4
\$120 000 to \$129 999	2	1
\$130 000 to \$139 999	1	1
\$140 000 to \$149 999	-	1
\$170 000 to \$179 999	1	-
\$180 000 to \$189 999	1	-
\$190 000 to \$199 999	-	1
\$210 000 to \$219 999	-	1
\$220 000 to \$229 999	1	-
\$300 000 to \$309 999	1	-
\$320 000 to \$329 999	-	1
<b>Total number of employees</b>	<b>19</b>	<b>14</b>

## FINANCIALS

### NOTE 11

#### Key management personnel disclosures

The following employees held authority and responsibility for planning, directing and controlling the activities of HomeStart for the entire financial year:

- Gary Storkey (Chief Executive Officer)
- John Comley (General Manager Corporate Services and CFO)
- Ian Wheaton (General Manager Treasury and Risk).

John Rolfe (General Manager Strategic Services) held authority and responsibility for planning, directing and controlling the activities of HomeStart from the date of his appointment on 4 August 2008 until the end of the financial year.

#### Key management personnel compensation

The compensation of the above key management personnel included in 'employee expenses' (see note 10) is as follows:

	2009 (\$)	2008 (\$)
Short-term employee benefits	820 689	869 450
Long-term employee benefits (long service leave)	15 385	15 955
Long-term employee benefits (amounts paid to superannuation plans)	71 082	75 956
Termination benefits	-	52 223
<b>Total key management personnel compensation</b>	<b>907 156</b>	<b>1 013 584</b>

### NOTE 12

#### Related parties

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:

- employees who are key management personnel
- board members
- Department for Families and Communities
- Department of Treasury and Finance
- South Australian Government Financing Authority (SAFA).

The nature and amounts of these transactions have been disclosed throughout the financial report.

#### Board members

The following persons were members of the Board of HomeStart during the whole of the financial year:

- Claude Long (Chair)
- Jim Kouts (Deputy Chair)
- Estelle Bowman
- Paula Capaldo
- Sandra De Poi
- David Garrard
- Lindsay Nicholson.

#### Board members' remuneration

The remuneration of the Board of HomeStart included in 'employee expenses' (see Note 10) is as follows:

	2009 (\$)	2008 (\$)
Short-term benefits (note 10)	264 680	154 352
Long-term employee benefits (amounts paid to superannuation plans)	23 821	13 932
<b>Total board members' remuneration</b>	<b>288 501</b>	<b>168 284</b>

## FINANCIALS

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

	2009 No.	2008 No.
\$0 - \$9 999	-	1
\$10 000 - \$19 999	-	1
\$20 000 - \$29 999	-	6
\$30 000 - \$39 999	4	-
\$40 000 - \$49 999	2	-
\$50 000 - \$59 999	1	-
<b>Total number of board members</b>	<b>7</b>	<b>8</b>

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

### NOTE 13

#### Economic dependency

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

#### Financing services

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.

## FINANCIALS

### NOTE 14

#### Depreciation and amortisation expense

	2009 \$'000	2008 \$'000
<b>Depreciation</b>		
Other office and computer equipment	240	230
<b>Total depreciation</b>	<b>240</b>	<b>230</b>
<b>Amortisation</b>		
Leasehold improvements	230	223
Intangible assets	106	73
<b>Total amortisation</b>	<b>336</b>	<b>296</b>
<b>Total depreciation and amortisation</b>	<b>576</b>	<b>526</b>

### NOTE 15

#### Other expenses

	2009 \$'000	2008 \$'000		
<b>Other expenses arising from transactions with entities within the state government</b>				
External auditor's remuneration	166	103		
Insurance	59	57		
<b>Total other expenses arising from transactions with entities within the state government</b>	<b>225</b>	<b>160</b>		
<b>Other expenses arising from transactions with entities external to the state government</b>				
Unrealised change in market value of investments	421	7 977		
Realised change in market value of investments	7 069	-		
Office accommodation (minimum lease payments)	741	723		
Marketing, product development and advertising	1 218	1 199		
Internal audit fees	198	244		
Loan administration	172	168		
Information technology	370	362		
Consultants' fees	251	419		
Human resources and staff development	482	434		
Other	1 731	1 279		
<b>Total other expenses arising from transactions with entities external to the state government</b>	<b>12 653</b>	<b>12 805</b>		
<b>Total other expenses</b>	<b>12 878</b>	<b>12 965</b>		
<b>The number and dollar amount of consultancies paid/payable that fell within the following bands:</b>				
	No	2009 \$'000	No	2008 \$'000
Below \$10 000	5	28	3	7
Between \$10 000 and \$50 000	2	50	2	51
Above \$50 000	2	173	2	361
<b>Total paid/payable to the consultants engaged</b>	<b>9</b>	<b>251</b>	<b>7</b>	<b>419</b>

## FINANCIALS

### NOTE 16

#### Auditor's remuneration

##### Other services

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

	2009 \$'000	2008 \$'000
Audit fees paid/payable to the Auditor-General's Department	166	103
<b>Total audit fees – state government entities</b>	<b>166</b>	<b>103</b>

### NOTE 17

#### 17.1 Financial Investments designated at fair value through profit or loss

Refer to table.

Financial investments designated at fair value through profit or loss with entity within the state government	2009 \$'000	2008 \$'000
SAFA Cash Management Fund	21 475	-
SAFA Composite Bond Index investment	-	9 040
SAFA Cash Enhanced Fund	-	17 748
<b>Total financial investments designated at fair value through profit or loss with entity within the state government</b>	<b>21 475</b>	<b>26 788</b>
<b>Financial investments designated at fair value through profit or loss with entities external to the state government</b>		
Unit Trusts	7 811	14 679
Breakthrough Loan (shared appreciation component)	40 303	16 014
<b>Total financial investments designated at fair value through profit or loss with entities external to the state government</b>	<b>48 114</b>	<b>30 693</b>
<b>Total financial investments designated at fair value through profit or loss</b>	<b>69 589</b>	<b>57 481</b>

#### 17.2 Maturity profile of HomeStart's financial investments

Refer to table.

#### 17.3 Risk exposure

Information in relation to HomeStart's exposure to investment price risk is provided in note 31.4.3.

Maturity profile of HomeStart's financial investments	2009 \$'000	2008 \$'000
At call	29 286	17 748
Not longer than 3 months	-	14 679
Longer than 3 months and not longer than 12 months	-	9 040
Longer than 5 years	40 303	16 014
<b>Total financial investments</b>	<b>69 589</b>	<b>57 481</b>

**FINANCIALS****NOTE 18****18.1 Financial investments  
– held to maturity**

Refer to table.

<b>Financial investments – held to maturity with entities external to the state government</b>	<b>2009 \$'000</b>	<b>2008 \$'000</b>
Bonds	10 201	-
<b>Total financial investments – held to maturity</b>	<b>10 201</b>	<b>-</b>

**18.2 Maturity profile of  
HomeStart's financial  
investments – held to maturity****18.3 Risk exposure**

Information in relation to HomeStart's exposure to investment price risk is provided in note 31.4.3.

	<b>2009 \$'000</b>	<b>2008 \$'000</b>
At call	-	-
Not longer than 3 months	-	-
Longer than 3 months and not longer than 12 months	-	-
Longer than 12 months and not longer than 5 years	7 100	-
Longer than 5 years	3 101	-
<b>Total financial investments – held to maturity</b>	<b>10 201</b>	<b>-</b>

**FINANCIALS****NOTE 19****19.1 Loans and advances**

Refer to table.

**19.2 Risk exposures**

Information in relation to HomeStart's exposure to credit risk for loans and advances is provided in note 31.2.1.

	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Loans and advances</b>		
Primary loans	1 332 523	1 184 330
Subsidised loans	78 064	74 324
<b>Gross loans and advances</b>	<b>1 410 587</b>	<b>1 258 654</b>
Fair value adjustment	(15 603)	(14 681)
Deferred loan fee income	(4 942)	(4 380)
Deferred loan fee expense	2 444	2 335
Specific provisions for impairment	(4 236)	(1 332)
Unearned income	(1 351)	(1 073)
Collective provision for impairment	(9 746)	(10 440)
<b>Net loans and advances</b>	<b>1 377 153</b>	<b>1 229 083</b>
<b>Specific provision for impaired loans</b>		
Opening balance	1 332	2 214
Bad debts written off	(32)	(77)
Impairment expense	2 936	(805)
<b>Closing balance</b>	<b>4 236</b>	<b>1 332</b>
<b>Collective impairment provision</b>		
Opening balance	10 440	7 063
Impairment expense	(694)	3 377
<b>Closing balance</b>	<b>9 746</b>	<b>10 440</b>
<b>Total provision for impairment</b>	<b>13 982</b>	<b>11 772</b>

**FINANCIALS****NOTE 20****Other financial assets**

<b>Other financial assets - entities within the state government</b>	<b>2009 \$'000</b>	<b>2008 \$'000</b>
Accrued financial investment income	52	-
EquityStart grant receivable	816	811
Other	-	337
<b>Total other financial assets – entities within the state government</b>	<b>868</b>	<b>1 148</b>
<b>Other financial assets – entities external to the state government</b>		
Deferred financial investment income	106	-
Accrued interest on housing loans and advances	228	303
Accrued interest on cash at bank	5	10
GST recoverable	47	34
Other	7	28
<b>Total other financial assets – entities external to the state government</b>	<b>393</b>	<b>375</b>
<b>Total other financial assets</b>	<b>1 261</b>	<b>1 523</b>

## FINANCIALS

### NOTE 21

#### Property, plant and equipment

	2009 \$'000	2008 \$'000
<b>Leasehold improvements</b>		
Leasehold improvements at cost	2 055	2 027
Accumulated amortisation	(788)	(557)
<b>Total leasehold improvements</b>	<b>1 267</b>	<b>1 470</b>
<b>Other office and computer equipment</b>		
Other office and computer equipment at cost	2 894	2 895
Accumulated depreciation	(2 174)	(2 136)
<b>Total other office and computer equipment</b>	<b>720</b>	<b>759</b>
<b>Total property, plant and equipment</b>	<b>1 987</b>	<b>2 229</b>

	Leasehold improvements \$'000	Other office and computer equipment \$'000	Total \$'000
<b>Carrying amount at 30 June 2007</b>	<b>1 654</b>	<b>764</b>	<b>2 418</b>
Additions	39	230	269
Disposals – at cost	-	(90)	(90)
Disposals – accumulated depreciation	-	85	85
Depreciation and amortisation	(223)	(230)	(453)
<b>Carrying amount at 30 June 2008</b>	<b>1 470</b>	<b>759</b>	<b>2 229</b>
Additions	28	205	233
Disposals – at cost	-	(206)	(206)
Disposals – accumulated depreciation	-	202	202
Depreciation and amortisation	(231)	(240)	(471)
<b>Carrying amount at 30 June 2009</b>	<b>1 267</b>	<b>720</b>	<b>1 987</b>

**FINANCIALS****NOTE 22****Intangible assets**

<b>Intangible assets</b>	<b>2009 \$'000</b>	<b>2008 \$'000</b>
Software at cost	1 061	1 020
Accumulated amortisation	(813)	(707)
<b>Total software</b>	<b>248</b>	<b>313</b>
<b>Carrying amount at 1 July 2008</b>	<b>313</b>	<b>163</b>
Additions	41	223
Disposals	-	-
Amortisation	(106)	(73)
<b>Carrying amount at 30 June 2009</b>	<b>248</b>	<b>313</b>

**NOTE 23****Other assets**

<b>Other assets – entities within the state government</b>	<b>2009 \$'000</b>	<b>2008 \$'000</b>
Prepayments	12	-
<b>Total other assets – entities within the state government</b>	<b>12</b>	<b>-</b>
<b>Other assets – entities external to the state government</b>		
Prepayments	368	200
<b>Total other assets – entities external to the state government</b>	<b>368</b>	<b>200</b>
<b>Total other assets</b>	<b>380</b>	<b>200</b>

## FINANCIALS

### NOTE 24

#### Payables

##### 24.1 Payables

Refer to table.

##### 24.2 Settlement profile of HomeStart's payables

All payables will be settled within 12 months of the reporting date.

	2009 \$'000	2008 \$'000
<b>Payables to entities within the state government</b>		
Creditors	6	5
Accrued administration expenses	160	134
Employment on-costs	229	213
Accrued interest payable on borrowings	1 995	3 472
Accrued interest payable on derivatives	616	301
Accrued guarantee fee payable	674	556
<b>Total payables to entities within the state government</b>	<b>3 680</b>	<b>4 681</b>
<b>Payables to entities external to the state government</b>		
Creditors	256	187
Accrued administration expenses	130	93
Accrued loan manager fees	347	307
Accrued capital acquisition	-	8
<b>Total payables to entities external to the state government</b>	<b>733</b>	<b>595</b>
<b>Total payables</b>	<b>4 413</b>	<b>5 276</b>

### NOTE 25

#### Borrowings

##### 25.1 Interest-bearing liabilities

Refer to table.

##### 25.2 Security

All HomeStart borrowings are unsecured.

##### 25.3 Risk exposure

Information in relation to HomeStart's exposure to liquidity and interest rate risks is provided in notes 31.3 and 31.4 respectively.

	2009 \$'000	2008 \$'000
<b>Short-term borrowings payable to entity within the state government</b>		
Short-term borrowings	261 004	40 634
<b>Total short-term borrowings payable to entity within the state government</b>	<b>261 004</b>	<b>40 634</b>
<b>Long-term borrowings payable to entity within the state government</b>		
Long-term borrowings	1 042 000	1 093 500
<b>Total long-term borrowings payable to entity within the state government</b>	<b>1 042 000</b>	<b>1 093 500</b>
<b>Total interest-bearing liabilities</b>	<b>1 303 004</b>	<b>1 134 134</b>

## FINANCIALS

### NOTE 26

#### Employee benefits

##### 26.1 Employee benefits

Employee benefits	2009 \$'000	2008 \$'000
Accrued salaries	30	153
Annual leave	486	439
Long service leave	614	488
<b>Total employee benefits</b>	<b>1 130</b>	<b>1 080</b>

##### 26.2 Aggregate employee benefits

Refer to table.

##### 26.3 Settlement period of long service leave

The liability for long service leave is recognised after an employee has completed 6.5 years (6.5 years, 2007-08) of service in accordance with Accounting Policy Framework IV Financial Asset and Liability Framework.

HomeStart policy allows any employee who has completed seven years of continuous service to:

- have their long service leave entitlements paid to them on leaving HomeStart, as part of their termination payment
- take pro-rata long service leave
- 'cash out' a proportion of their long service leave, in lieu of taking the leave.

HomeStart therefore does not have an unconditional right to defer settlements of the long service leave liability for at least 12 months after the reporting date.

Aggregate employee benefits	2009 \$'000	2008 \$'000
<b>Accrued salaries</b>		
On-costs	75	84
Provision for employee benefits	30	153
<b>Total accrued salaries</b>	<b>105</b>	<b>237</b>
<b>Annual leave</b>		
On-costs	68	61
Provision for employee benefits	486	439
<b>Total annual leave</b>	<b>554</b>	<b>500</b>
<b>Long service leave</b>		
On-costs	86	68
Provision for employee benefits	614	488
<b>Total long service leave</b>	<b>700</b>	<b>556</b>
<b>Aggregate employee benefits and related on-costs</b>	<b>1 359</b>	<b>1 293</b>

**FINANCIALS****NOTE 27****Income tax equivalents payable**

	2009 \$'000	2008 \$'000
Income tax equivalents payable to entity within the state government	1 374	1 655
<b>Total tax equivalents liability payable to entity within the state government</b>	<b>1 374</b>	<b>1 655</b>

**NOTE 28****Provision for dividend**

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.

For the year ended 30 June 2009, the Board of HomeStart recommended the payment of a dividend to the Treasurer of 80% of after tax profit (80%, 2007-08).

	2009 \$'000	2008 \$'000
Dividend payable to entity within the state government	1 943	1 561
<b>Total dividend payable to entity within the state government</b>	<b>1 943</b>	<b>1 561</b>

**FINANCIALS****NOTE 29****Other liabilities**

	2009 \$'000	2008 \$'000
<b>Other liabilities payable to or arising from transactions with entities within the state government</b>		
Aboriginal loan security deposit	104	40
Unearned income (EquityStart grant)	2 653	2 523
<b>Total other liabilities payable to or arising from transactions with entities within the state government</b>	<b>2 757</b>	<b>2 563</b>
<b>Other liabilities payable to or arising from transactions with entities external to the state government</b>		
Wyatt Benevolent Institution	393	-
'Make good' provision	191	177
Operating lease incentive	35	70
<b>Total other liabilities payable to or arising from transactions with entities external to the state government</b>	<b>619</b>	<b>247</b>
<b>Total other liabilities</b>	<b>3 376</b>	<b>2 810</b>

## FINANCIALS

### NOTE 30 Equity

#### 30.1 General reserve for credit losses

A general reserve for credit losses was created as at 1 July 2005 to set aside retained earnings being the equivalent of the loans impairment provision determined under former AGAAP in excess of the specific and collective loss provisions determined under AASB 139. 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.

#### 30.2 Derivatives valuation reserve

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

### NOTE 31 Financial risk management

#### 31.1 Overview

HomeStart's activities expose it to a variety of financial risks, primarily:

- credit risk
- liquidity risk
- market risk (including interest rate risk and price risk).

This note presents information about HomeStart's exposure to each of the above risks as well as HomeStart's objectives, policies and processes for measuring and managing risk.

Taking risk is core to HomeStart's business. HomeStart aims to achieve an appropriate balance between risk and return, and minimise potential adverse effects on its financial performance.

HomeStart's Board of Management has overall responsibility for the establishment and oversight of HomeStart's risk management framework. The board has established the Asset and Liability Committee (ALCO) and Audit Committee to develop and monitor HomeStart's risk management policies.

HomeStart's risk management policies are designed to identify and analyse financial risks; set appropriate risk limits and controls; and monitor the risks and adherence to limits by means of reliable and up to date information systems. HomeStart regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Financial risk management is the responsibility of HomeStart's internal treasury and risk department which identifies, evaluates and, when feasible and appropriate, hedges financial risks. It operates in accordance with policies approved by the board and its sub-committees. These written policies cover overall risk management as well as specific areas, such as interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investment of funds.

HomeStart's Audit Committee is responsible for monitoring compliance with HomeStart's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by HomeStart. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. HomeStart's ALCO is also directly involved in the risk management process, in particular as it relates to the management of market risk and credit risk.

HomeStart's exposures to financial risk and how they arise, as well as its objectives, policies and processes for managing the risk and the methods used to measure the risk, have not changed materially from the previous period.

#### 31.2 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will cause HomeStart to incur a financial loss by failing to discharge an obligation.

HomeStart's exposure to credit risk arises primarily from loans and advances to customers.

As described below, HomeStart manages its credit risk by dealing with creditworthy customers and counterparties, setting credit limits on its exposures and obtaining collateral.

##### 31.2.1 Loans and advances

###### (a) Credit risk management

Credit risk is inherent in HomeStart's core function of lending.

HomeStart's credit risk management processes are overseen by the board and its Audit and ALCO sub-committees.

The board and its sub-committees are responsible for approving new lending and arrears management policies. The authority to make credit decisions in accordance with these approved policies is delegated by the board to executive management.

## FINANCIALS

The board and its sub-committees are responsible for monitoring payment and loss performance and regularly consider trends in the number of loans more than 30 days past due, expected loss analysis performed by both management and an independent actuary and actual losses realised.

The effectiveness of HomeStart's credit risk management framework is monitored via compliance and reporting processes. The Audit Committee is responsible for overseeing the internal audit of adherence to approved lending and arrears management policies.

### (b) Risk control and mitigation policies

HomeStart manages, limits and controls credit risks wherever they are identified. Some specific control and mitigation measures are outlined below.

#### Lending policies

HomeStart's approved lending policies require verification of the customer's income and an assessment of creditworthiness based on credit checks with independent agencies and statistical analysis of the factors most likely to lead to credit default. HomeStart has at no time undertaken lending on a reduced documentation basis or lending which relies in any way on borrowers' self-verification of income.

#### Collateral

HomeStart holds collateral against loans and advances to customers in the form of registered mortgages over security properties.

HomeStart credit principles specify that loans may only be made where the customer has the capacity and ability to repay. Obtaining collateral is used to mitigate credit risk.

Procedures are designed to ensure collateral is managed, legally enforceable, conservatively valued and adequately insured at the time of settlement. It is an ongoing condition of the loan contract that this insurance be kept current. Following settlement, HomeStart has other insurance arrangements to mitigate the risks arising from uninsured properties.

In the event of a loan default, any loan security is held as mortgage in possession. Any property thus held does not meet the recognition criteria of Australian Accounting Standards and is not recognised in the Statement of Financial Position.

The estimated fair value of collateral held is based on the Valuer-General's annual property data or a current formal valuation. As at year end the fair value of collateral for past due and impaired loans was:

	2009 \$'000	2008 \$'000
<b>Past due but not impaired</b>		
Gross carrying value	81 561	62 805
Fair value of collateral	143 477	119 939
<b>Impaired</b>		
Gross carrying value, before specific impairment provisions	21 338	11 909
Specific provision for impairment	4 236	1 332
Net impaired loans and advances	17 102	10 577
Fair value of collateral	23 591	14 111

#### Concentration of counterparty and geographic risk

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

Approximately 30% (34% 2007-08) of HomeStart's loans by value were secured against properties outside the Adelaide metropolitan area. This represents a risk as the limited market liquidity in country regions, as well as the less diversified nature of rural economies, can lead to greater volatility in property values. HomeStart currently manages this risk by imposing stricter loan to valuation ratio (LVR) limits when lending in some country locations, and excluding others completely.

At reporting date, 32% (30% 2007-08) of HomeStart's loans by value were secured against properties in the City of Salisbury and the City of Playford. HomeStart's exposure to risk in this geographic area is managed through lending policies, as well as obtaining and managing collateral, as described above.

#### Higher LVR loans

HomeStart has several product categories where the initial loan to valuation ratio (LVR) is permitted to exceed 95% (higher LVR loans). To mitigate and control associated risks the total dollar value of higher LVR loans is not permitted to exceed internal limits. In order to control volumes of higher LVR lending, HomeStart limits both the geographic range of higher LVR lending and imposes further credit assessment requirements.

## FINANCIALS

### Loan Provision Charge

HomeStart does not require its customers to pay for Lenders Mortgage Insurance. It does, however, require its customers to pay a Loan Provision Charge at the time of advancing a loan.

#### (c) Credit risk measurement

Significant portfolio analysis is performed by management on a regular basis to measure and report credit risk. This work is supplemented by an independent actuarial review performed each year, the outcomes of which include the expected future amounts to be written off. This amount reflects probability of default, exposure at default and loss given default.

This operational measurement can be contrasted with the impairment allowances required by AASB 139, which are based on the existence of objective evidence of impairment at the reporting date rather than expected losses (note 2.11 and note 19).

Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements is usually lower than the amount determined from the expected loss model that is used for internal operational management, as set out below.

	2009 \$'000	2008 \$'000
Expected losses used for internal operational management	16 423	13 353
Provision for impairment in the financial statements	(13 982)	(11 772)
Unearned income	(1 351)	(1 073)
<b>Difference</b>	<b>1 090</b>	<b>508</b>

HomeStart has designated its Breakthrough Loans as being at fair value through profit or loss. The credit risk attaching to the shared appreciation component of the Breakthrough Loan is not material.

#### (d) Credit quality and maximum exposure to credit risk

HomeStart's maximum exposure to credit risk has been recognised in the Statement of Financial Position as the carrying amount, net of any provisions for impairment of \$1377.15 million (\$1229.08 million 2007-08).

The credit quality of loans and advances can be assessed by reference to the expected loss amount used for internal operational management (as described above) and the Behaviour Risk Grading (BRG) system adopted by HomeStart.

The BRG system is a statistical tool used to monitor the credit behaviour of loans over time and assign a risk grading to each. Outcomes are monitored regularly to test the validity of assumptions and parameters used.

## FINANCIALS

The following table sets out the carrying value of loans and advances to customers. Further analysis by risk grading is also provided.

<b>Not impaired Neither renegotiated nor past due</b>	<b>2009 \$'000</b>	<b>2008 \$'000</b>
Low risk	763 636	633 980
Moderate risk	473 954	467 152
High risk	58 136	69 182
Gross loans and advances neither renegotiated nor past due	1 295 726	1 170 314
<b>Renegotiated (1)</b>		
Low risk	5 821	4 809
Moderate risk	4 248	5 843
High risk	1 893	2 974
Gross loans and advances renegotiated	11 962	13 626
<b>Past due but not impaired (2)</b>		
Low risk	20 160	14 222
Moderate risk	39 409	26 916
High risk	21 992	21 667
Gross loans and advances past due but not impaired	81 561	62 805
<b>Total not impaired</b>		
Low risk	789 617	653 011
Moderate risk	517 611	499 911
High risk	82 021	93 823
Gross loans and advances not impaired	1 389 249	1 246 745
<b>Impaired (3)</b>		
Low risk	3 393	518
Moderate risk	8 633	4 815
High risk	9 312	6 576
Gross impaired loans and advances	21 338	11 909
Specific provision for impairment	(4 236)	(1 332)
Impaired loans and advances after provisions	17 102	10 577
<b>Total</b>		
Low risk	793 010	653 529
Moderate risk	526 244	504 726
High risk	91 333	100 399
Gross loans and advances	1 410 587	1 258 654
Fair value adjustment	(15 603)	(14 681)
Deferred loan fee income	(4 942)	(4 380)
Deferred loan fee expense	2 444	2 335
Specific provision for impairment	(4 236)	(1 332)
Unearned income	(1 351)	(1 073)
Collective provision for impairment	(9 746)	(10 440)
Net loans and advances	1 377 153	1 229 083

## FINANCIALS

The following table provides an analysis of the age of financial assets that are past due as at the reporting date but not impaired.

	2009 \$'000	2008 \$'000
< 30 days	58 310	45 523
30 – 59 days	15 626	12 781
60 – 89 days	4 246	2 487
90 – 179 days	2 232	1 505
>179 days	1 147	509
<b>Total</b>	<b>81 561</b>	<b>62 805</b>

### (1) Loans and advances renegotiated

HomeStart policy permits certain customers to increase the balance of their loan by the amount of their arrears (arrears capitalisation). Following arrears capitalisation, a previously overdue customer account is reset to normal status.

HomeStart assesses arrears capitalisation on a case-by-case basis and decisions are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review.

Renegotiated loans that would otherwise be past due or impaired totalled \$12.0 million as at 30 June 2009 (\$13.6 million 2007-08).

### (2) Past due but not impaired

As per AASB 7 Financial Instruments: Disclosures (AASB 7), past due but not impaired loans are those where a counterparty has failed to make a payment when contractually due, however, are not considered impaired due to collateral available and other loan performance and customer characteristics.

### (3) Impaired loans

Impaired loans and advances are those where HomeStart has determined that it is probable that it will be unable to collect all principal and interest due in accordance with the contractual terms of the loan agreement.

### 31.2.2 Derivative financial assets/liabilities

#### (a) Credit risk management and risk control and mitigation policies

HomeStart is permitted by the Department of Treasury and Finance to transact in derivatives only with SAFA.

#### (b) Maximum exposure to credit risk

As at 30 June 2009, HomeStart did not have any exposure to credit risk arising from derivative financial assets.

As at 30 June 2008, HomeStart's maximum exposure to credit risk was recognised as the carrying amount at reporting date as shown in the table below.

	2009 \$'000	2008 \$'000
Derivative financial instruments	(10 776)	5 204
Swap income receivable	472	1 081
Swap expense payable	(1 088)	(1 382)
Net (payable)/receivable (note 24)	(616)	(301)
Maximum exposure to credit risk	(11 392)	4 903

Further information in relation to derivatives is disclosed in notes 31.3.3 and 31.4.2.

### 31.3 Liquidity risk

Liquidity risk is the risk that HomeStart may, at some stage, be unable to meet its financial obligations when they fall due. The consequence may be failure to meet obligations to repay SAFA and fulfil commitments to lend money to customers.

#### 31.3.1 Liquidity risk management

Risks relating to liquidity are governed by a range of treasury management policies, which are subject to oversight by the board's ALCO Sub-Committee.

HomeStart's liquidity management process is carried out and monitored by the treasury and risk management department and includes:

- day-to-day management of funding by monitoring cash flows to ensure excess funds are repaid, funds are replenished as they mature, and funds are borrowed when needed to meet lending and other financial commitments
- monitoring internal liquidity ratios and limits.

Monitoring and reporting takes the form of cash flow measurement and projections. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Whole-of-government policy requires that HomeStart hold a positive balance in its operating bank account.

## FINANCIALS

HomeStart's internal policy requires maintaining daily cash at an agreed target balance.

### 31.3.2 Funding approach

HomeStart is required by the Department of Treasury and Finance to use SAFA as its sole counterparty for all funding transactions. The arrangement gives HomeStart access to a significant volume of liquidity, restricted by an approved borrowing limit of \$1350 million as at 30 June 2009 (\$1350 million 2007-08).

On 19 August 2009, the Acting Treasurer approved an increase in HomeStart's borrowing limit from \$1350 million to \$1500 million.

### 31.3.3 Exposure to liquidity risk

#### (a) Non-derivative cash flows

HomeStart's exposure to liquidity risk is managed by adherence to ALCO approved ratios and requirements, which include a requirement that HomeStart's debt, subject

to refinancing in the next 12 month period, is to be limited to 50% (40%, 2007-08) of total debt outstanding.

#### % of debt subject to refinancing in the next 12 month period

	2009	2008
At 30 June	21.81%	3.58%
Average for the period	29.78%	6.53%
Maximum for the period	47.02%	8.85%
Minimum for the period	3.58%	2.17%

The table below presents the cash flows payable by HomeStart under non-derivative financial liabilities by remaining contractual maturities at the reporting date.

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, cash equivalents, loans and advances to individuals and liquid investments.

2009	Up to 1 month \$'000	1-3 months \$'000	3-12 months \$'000	1-5 years \$'000	Over 5 years \$'000	Total \$'000	Carrying value \$'000
<b>Liabilities</b>							
Payables	3 739	674	-	-	-	4 413	4 413
Borrowings	214 003	56 362	32 151	1 122 148	-	1 424 664	1 303 004
Other financial liabilities	-	2 630	687	-	-	3 317	3 317
<b>Total liabilities (contractual maturity dates)</b>	<b>217 742</b>	<b>59 666</b>	<b>32 838</b>	<b>1 122 148</b>	<b>-</b>	<b>1 432 394</b>	<b>1 310 734</b>
2008	Up to 1 month \$'000	1-3 months \$'000	3-12 months \$'000	1-5 years \$'000	Over 5 years \$'000	Total \$'000	Carrying value \$'000
<b>Liabilities</b>							
Payables	4 720	556	-	-	-	5 276	5 276
Borrowings	47 525	13 764	65 153	1 239 129	-	1 365 571	1 134 134
Other financial liabilities	-	2 389	827	-	-	3 216	3 216
<b>Total liabilities (contractual maturity dates)</b>	<b>52 245</b>	<b>16 709</b>	<b>65 980</b>	<b>1 239 129</b>	<b>-</b>	<b>1 374 063</b>	<b>1 142 626</b>

**FINANCIALS****(b) Derivative cash flows**

Derivatives used by HomeStart to hedge risk include interest rate swaps, forward rate agreements and bank bill futures.

The table analyses HomeStart's derivative financial liabilities at fair value that will be settled on a net basis into relevant maturity groupings based on the remaining period to the contractual maturity date.

Further information in relation to derivatives is disclosed in notes 31.2.2 and 31.4.2

**(c) Off balance sheet**

The periods of payment of unrecognised contractual commitments are disclosed in note 33.

	<b>Up to 1 month \$'000</b>	<b>1-3 months \$'000</b>	<b>3-12 months \$'000</b>	<b>1-5 years \$'000</b>	<b>Over 5 years \$'000</b>	<b>Total \$'000</b>
2009	(954)	(1 709)	(5 228)	(3 606)	591	(10 906)
2008	141	540	1 954	2 807	3	5 445

## FINANCIALS

### 31.4 Market risk

Market risk is the risk of changes in market prices such as interest rates, equities prices, credit spreads and property prices affecting HomeStart's income and returns.

The objective of market risk management is to monitor, control and mitigate exposure to this risk, all within acceptable parameters while at the same time optimising return.

#### 31.4.1 Market risk management

HomeStart's market risk management processes are overseen by the board and its ALCO sub-committee.

A comprehensive Treasury Master Document sets out the policies which govern HomeStart's management of market risk. Adherence to these policies is monitored by ALCO at its monthly meetings, by the Finance Sub-Committee at its weekly meetings and by the treasury department on a daily basis.

ALCO is responsible for approving these policies. The authority to make decisions in accordance with these approved policies is delegated by the board to executive management.

The effectiveness of HomeStart's market risk management framework is monitored via compliance and reporting processes and independent review by internal audit.

#### 31.4.2 Interest rate risk – derivative financial instruments

##### (a) Risk control and mitigation policies

HomeStart manages, limits and controls market risks wherever they are identified. The following outlines some specific control and mitigation measures.

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

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, HomeStart enters into interest rate swap contracts in order to hedge this mismatch of cash flows.

As at 30 June 2009, HomeStart had:

- floating/fixed swaps with a notional value of \$320 million (\$313 million, 2007-08)

- a floating/floating swap with a notional value of \$30 million (\$30 million, 2007-08)
- a forward rate agreement with a notional value of \$50 million (\$0 million, 2007-08).

Each of the above had fixed rates varying between 2.70% and 7.85% (5.35% and 7.85%, 2007-08).

Periods to maturity of the interest rate swap contracts are disclosed at note 31.3.3(b).

(b) Market risk measurement and maximum exposure to interest rate risk

The three major risk measurement processes used by HomeStart to measure and control interest rate risk are the Present Value per Basis Point (PVBP), Value at Risk (VaR) methodology and stress testing. These processes are applied to all of HomeStart's financial asset, liability and derivatives positions, with the exception of investments held through the Risk Transfer Vehicle which are monitored separately (refer section 31.4.3).

#### Present Value per Basis Point (PVBP)

HomeStart measures the PVBP of financial asset, liability and derivative positions. PVBP analysis identifies the extent of interest rate risk within different maturity brackets and for the portfolio overall. Limits for portfolio PVBP are set by ALCO and monitored monthly. The treasury and risk department reviews PVBP statistics daily.

Internally approved limits for the PBVP are set at \$10 000 to (\$10 000) and these were not exceeded at any time in the years ended 30 June 2009 and 30 June 2008.

	2009 \$'000	2008 \$'000
Limit	+/-10	+/-10
Average for the period	0.8	-
Maximum for the period	4.5	3
Minimum for the period	(3.6)	(2)

#### Value at Risk (VaR)

HomeStart applies a VaR methodology to estimate the market risk of all positions held and the maximum losses expected, based upon a number of assumptions for changes in market conditions. ALCO sets limits on the value at risk that may be accepted by HomeStart, which are monitored on a daily basis by the treasury and risk department and monthly by the board and ALCO.

## FINANCIALS

HomeStart's VaR methodology models non-parallel shifts in the yield curve using the last 250 days of historical interest rate data to predict, within a 99% confidence interval, the likely outcome for the market value of a position or portfolio assuming it takes 10 days to unwind the open positions that give rise to the exposure. Actual outcomes are monitored regularly to test the validity of assumptions and parameters/factors used in the VaR calculation.

Although VaR represents a good estimate of potential losses under normal market conditions, the assumptions on which the model is based give rise to some limitations, including the following:

- A ten day period to unwind open positions assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- A 99% confidence interval means there is a 1% statistical probability that actual loss could be greater than the VaR estimate. The use of this approach does not prevent losses outside set limits in the event of more significant market movements.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions held during the day.
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure is dependent upon HomeStart's position and the volatility of interest rates. The VaR of an unchanged position reduces if interest rate volatility declines and vice versa.

The table below summarises the approved maximum loss limits, which HomeStart did not exceed at any time, for the years ended 30 June 2009 and 30 June 2008:

	2009 \$'000	2008 \$'000
Maximum loss limit	1 100	800
Average for the period	153	49
Maximum for the period	474	159
Minimum for the period	2	12

### Stress testing

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures. In addition, HomeStart uses stress tests to provide an indication of the potential size of losses that could arise in extreme conditions.

HomeStart's treasury system undertakes daily worst case interest rate tests on the entire asset and liabilities portfolio (including derivatives). Six different scenarios are used to test the impact of movements in interest rates on the market value of the entire portfolio. The average worst case outcome is reported monthly to the board and ALCO.

The table below summarises the approved maximum loss limits, which HomeStart did not exceed at any time, for the years ended 30 June 2009 and 30 June 2008.

	2009 \$'000	2008 \$'000
Maximum loss limit	2 500	2 500
Average for the period	388	383
Maximum for the period	1 092	990
Minimum for the period	3	31

### (c) Hedge accounting

Fixed interest rate loan assets have been valued at fair value, 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 Statement of Comprehensive Income when HomeStart satisfies the 'hedge accounting' requirements contained in AASB 139 Financial Instruments: Recognition and Measurement.

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 Statement of Comprehensive Income immediately. In the year ended 30 June 2009, \$15.96 million loss (\$2.88 million gain, 2007-08) was recognised in equity during the period. The ineffective portion of \$0.02 million (nil, 2007-08) was recognised immediately in the calculation of profit before income tax equivalents expense. No amount was removed from equity in the current and prior years and included in the Statement of Comprehensive Income.

## FINANCIALS

Further information in relation to derivatives is disclosed in notes 31.2.2 and 31.3.3.

### 31.4.3 Investments price risk

#### (a) Risk control and mitigation policies

HomeStart is exposed to investment price risk arising from investments held by HomeStart and classified on the Statement of Financial Position at fair value through profit or loss.

To manage its price risk arising from investments, HomeStart diversifies its portfolio in accordance with limits set by ALCO. The investments are held on a passive investment basis. Adherence to approved limits is monitored on a weekly basis by the treasury department and monthly by the board and ALCO.

#### (b) Maximum exposure to investments price risk

HomeStart's maximum exposure to investments price risk has been recognised as the carrying amount at reporting date (note 17).

#### (c) Sensitivity analysis

The following tables summarise the sensitivity of HomeStart's profit to investment price risk. The analysis is based on the assumption of a 10% increase or decrease in market value at year end, with all other variables being held constant.

2009	Carrying amount \$'000	-10%	+10%
Unit Trusts	7 811	(781)	781
SAFA Cash Management Fund	21 475	(2 147)	2 147
<b>Total increase/(decrease) in profit before tax and equity</b>		<b>(2 928)</b>	<b>2 928</b>

2008	Carrying amount \$'000	-10%	+10%
Listed equities and properties funds	14 679	(1 468)	1 468
SAFA Composite Bond Index investment	9 040	(904)	904
SAFA Cash Enhanced Fund	17 747	(1 775)	1 775
<b>Total increase/(decrease) in profit before tax and equity</b>		<b>(4 147)</b>	<b>4 147</b>

### 31.4.4 Breakthrough Loan property price risk

#### (a) Risk control and mitigation policies

HomeStart is exposed to property price risk arising from the shared appreciation component of Breakthrough Loans made to customers that are measured at fair value through profit or loss. The fair value of this loan is based on the value of the property pledged as collateral (note 2.12).

To manage its price risk arising from Breakthrough Loans, HomeStart limits the total size of the Breakthrough Loan portfolio, the dollar value of loans settled each month and the geographic locations where lending is undertaken.

#### (b) Maximum exposure to property price risk

HomeStart's maximum exposure to property price risk has been recognised as the carrying amount at balance date (note 17).

#### (c) Sensitivity analysis

The following table summarises the sensitivity of HomeStart's profit to movements in the values of properties used as collateral for a Breakthrough Loan. The analysis is based on the assumption of a 5% increase or decrease in property market value at year end, with all other variables being held constant.

	2009	2008
	Carrying amount \$'000	Carrying amount \$'000
	-5%	+5%
Breakthrough Loan	40 303	16 014
	(2 291)	(967)
	2 635	1 022
<b>Total increase/(decrease) in profit before tax and equity</b>	<b>(2 291)</b>	<b>(967)</b>
	<b>2 635</b>	<b>1 022</b>

## FINANCIALS

### 31.4.5 Currency risk

Changes in foreign exchange rates will not directly cause the fair value or future cash flows of any financial instruments held by HomeStart to fluctuate.

### NOTE 32

#### Fair value and categorisation of financial instruments

##### 32.1 Fair value and categorisation of financial instruments

The table below summarises the categorisation, carrying amounts and fair values of HomeStart's financial assets and liabilities.

Details of the significant accounting policies and methods adopted including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised with respect of each class of financial asset

and financial liability are disclosed in note 2 Summary of significant accounting policies.

##### 32.2 Fair value estimation

###### (a) Derivatives

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows determined using the yield curve at year end.

###### (b) Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows of non subsidised loans are discounted using the interest rate payable by the customer, which is market rate. Subsidised loans are discounted using a risk free rate of interest, based on four-year (for Advantage Loans) and ten-year (for EquityStart loans) SAFA bonds.

Financial assets	Category	2009		2008	
		Carrying value \$'000	Fair value \$'000	Carrying value \$'000	Fair value \$'000
Cash and cash equivalents	N/A	4 120	4 120	3 940	3 940
Investments	Fair value through profit or loss	69 589	69 589	57 481	57 481
Investments	Held to maturity	10 201	10 201	-	-
Derivative financial instruments	Hedge accounting - fair value through equity	-	-	5 204	5 204
Loans and advances	Amortised cost	1 377 153	1 464 349	1 229 083	1 308 330
Other financial assets	Financial assets (at cost)	1 261	1 261	1 523	1 523
<b>Total financial assets</b>		<b>1 462 324</b>	<b>1 549 520</b>	<b>1 297 231</b>	<b>1 376 478</b>
<b>Financial liabilities</b>					
Borrowings	Financial liabilities (amortised cost)	1 303 004	1 298 931	1 134 134	1 146 044
Derivative financial instruments	Hedge accounting - fair value through equity	10 776	10 776	-	-
Payables	Financial liabilities (at cost)	4 413	4 413	5 276	5 276
<b>Total financial liabilities</b>		<b>1 318 193</b>	<b>1 314 120</b>	<b>1 139 410</b>	<b>1 151 320</b>
<b>Net financial assets</b>		<b>144 131</b>	<b>235 400</b>	<b>157 821</b>	<b>255 158</b>

## FINANCIALS

### (c) Investments

The fair value of investments in the Unit Trusts and SAFA Cash Management Fund are determined using exit prices supplied by the fund managers at reporting date.

### (d) Shared appreciation component of the Breakthrough Loan

The fair value of the shared appreciation component of the Breakthrough Loan is estimated by management based on information provided by independent property valuers, Hometrack Australia and the South Australian Valuer-General.

## NOTE 33

### Unrecognised contractual arrangements

#### 33.1 Capital commitments

HomeStart has no capital expenditure contracted for at the reporting date but not recognised as liabilities in the financial report as at 30 June 2009 (nil, 2007-08).

#### 33.2 Operating leases

##### 33.2.1 HomeStart as lessee

HomeStart's operating lease commitments 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:

	2009 \$'000	2008 \$'000
Not later than one year	974	772
Later than one year but not later than five years	592	799
<b>Total operating lease commitments</b>	<b>1 566</b>	<b>1 571</b>

##### 33.2.2 HomeStart as lessor

HomeStart is the lessor of office accommodation. The lease is non-cancellable with a term up to five years with the right of renewal. Rent is receivable monthly in advance.

The total amount of rental income received in the financial year is disclosed within other income in note 6.

Amounts due to HomeStart under a non-cancellable operating lease at the reporting date not recognised as an asset in the financial report, are receivable as follows:

	2009 \$'000	2008 \$'000
Not later than one year	175	-
Later than one year but not later than five years	567	-
<b>Total operating lease receivables</b>	<b>742</b>	<b>-</b>

#### 33.3 Remuneration commitments

The majority of HomeStart staff members are employed under fixed-term contracts that expire on varying dates within the next five years. Commitments for the payment of salaries and other remuneration under fixed-term employment contracts in existence at the reporting date are not recognised as liabilities.

Notes 10 and 11 set out remuneration costs for the years ended 30 June 2009 and 30 June 2008. HomeStart estimates that commitments from existing employment positions within one year, and annually for not longer than five years, will be consistent with salaries and wages expenses in note 10.

HomeStart does not offer fixed-term remuneration contracts greater than five years.

#### 33.4 Commitments to extend credit to customers

Contractual commitments for loans either approved but not settled or settled but not fully drawn at the balance date amounted to \$52.8 million (\$36.3 million, 2007-08). These commitments are expected to be paid in the coming year.

## NOTE 34

### Contingent liabilities

HomeStart has no material contingent liabilities as at 30 June 2009 (nil, 2007-08).

## NOTE 35

### Cash flow reconciliation

#### 35.1 Cash

For the purposes of the Statement of Cash Flows, 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.

## FINANCIALS

### 35.2 Reconciliation of profit for the year to net cash provided by operating activities:

	2009 \$'000	2008 \$'000
<b>Profit for the year</b>	<b>7 116</b>	<b>4 751</b>
Loss/(gain) on sale of fixed assets	1	(1)
Depreciation and amortisation expense	576	526
Unrealised change in fair value of loans	(360)	(1 097)
Unrealised change in market value of investments	421	7 977
Realised change in market value of investments	7 069	-
Reinvestment of investment income	(2 816)	(3 062)
Bad debts written off against profit	72	15
Bad debts written off against provision	32	77
Unearned income on loans written off	71	62
Fees applied directly to loan accounts	(4 621)	(3 610)
<b>Changes in assets and liabilities:</b>		
Increase in provision for impairment	2 210	2 495
Increase/(decrease) in deferred loan fee income	562	(230)
(Decrease)/increase in deferred loan fee expense	(109)	170
Increase in fair value adjustment	922	2 079
(Decrease)/increase in payables	(863)	731
Increase in provision for employee benefits	50	69
Increase/(decrease) in other liabilities	566	(53)
Increase in unearned interest income	278	251
(Decrease) in income tax payable	(281)	(291)
Decrease in financial and other assets	256	172
<b>Net cash provided by operating activities</b>	<b>11 152</b>	<b>11 031</b>

#### NOTE 36

##### Events after balance date

On 19 August 2009, the Acting Treasurer approved an increase in HomeStart's borrowing limit from \$1350 million to \$1500 million.

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

# FINANCIALS

## INDEPENDENT AUDITOR'S REPORT



Government of South Australia  
Auditor-General's Department

9th Floor  
State Administration Centre  
200 Victoria Square  
Adelaide SA 5000  
DX 56208  
Victoria Square  
Tel +618 8226 9640  
Fax +618 8226 9688  
ABN 53 327 061 410  
audgema@audit.sa.gov.au  
www.audit.sa.gov.au

### To the Chair HomeStart Finance

As required by section 31 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 accompanying financial statements of HomeStart Finance for the financial year ended 30 June 2009. The financial statements comprise:

- A Statement of Comprehensive Income
- A Statement of Financial Position
- A Statement of Changes in Equity
- A Statement of Cash Flows
- Notes to the Financial Statements, and
- A certificate from the Chair, Deputy Chair, Chief Executive Officer and the General Manager Corporate Services and Chief Financial Officer.

### The Responsibility of the HomeStart Finance Board Members for the Financial Statements

The HomeStart Finance Board Members are responsible for the preparation and the fair presentation of the financial statements in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on the audit. The audit was conducted in accordance with the requirements of the *Public Finance and Audit Act 1987* and Australian Auditing Standards. The Auditing Standards require that the auditor complies with relevant ethical requirements relating to audit engagements and plans and performs the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

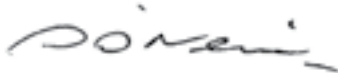
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the HomeStart Finance Board Members, as well as the overall presentation of the financial statements.

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

## FINANCIALS

### **Auditor's Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of HomeStart Finance as at 30 June 2009, and its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.



**S O'Neill**  
**AUDITOR-GENERAL**  
17 September 2009



Government  
of South Australia

**HomeStart**  
**FINANCE**

HomeStart Finance.  
153 Flinders Street, Adelaide 5000.