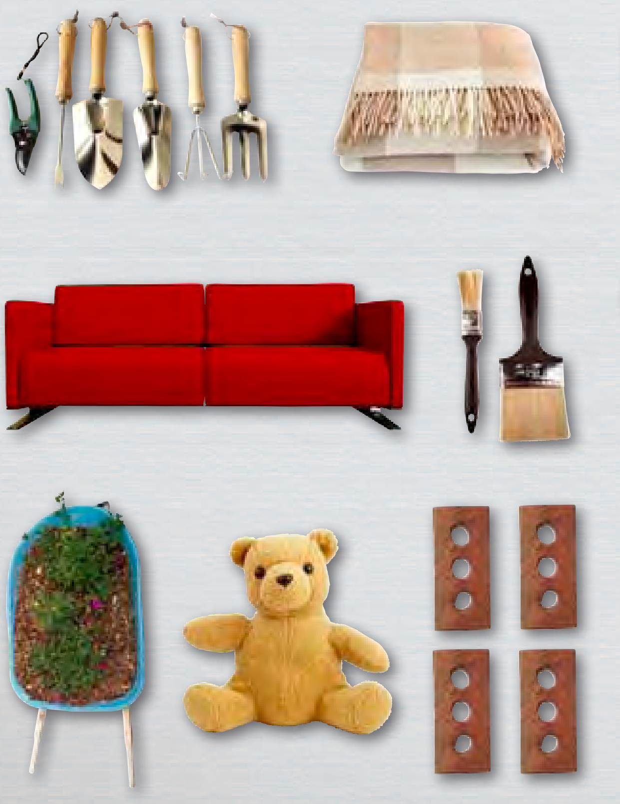
Annual Report 2010-2011

Government of South Australia

HomeStart FINANCE

ENTER »



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 1300 636 878

Facsimile 08 8203 4001

Website 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 customers who are featured in this Annual Report.

For information on the Annual Report:
Marketing Department
HomeStart Finance
GPO Box 1266
Adelaide SA 5001

Government of South Australia

HomeStart FINANCE

LETTER OF TRANSMITTAL

The Hon Jennifer Rankine MP
Minister for Housing
Parliament House
North Terrace
Adelaide SA 5000

Dear Minister,

HOMESTART FINANCE 2010-11 ANNUAL REPORT

On behalf of the Board and Management of HomeStart Finance, I have pleasure in enclosing the 2010-11 Annual Report.

We are pleased to report on another year of financial achievement and community contribution. While the external environment has presented challenges for the home finance industry, we continued to progress toward our vision: making home ownership achievable for more South Australians.

We look forward to another year of sound growth and strengthening our working relationships with both the private and public sector, to further contribute to the aims of the South Australian Strategic Plan.

Yours sincerely,

John Oliver
CHIEF EXECUTIVE OFFICER
HomeStart Finance

Report from the Chair

2010-11 was a most challenging year for home owners and buyers.

In a year of economic fluctuation driven by issues such as heightened sovereign risk in Europe, a consistently rising Australian dollar and at home the emergence of a two speed economy, we saw a new level of uncertainty and conservatism emerge. Whilst interest rates remained steady for the last seven months of the financial year, the constant media speculation and market commentary created a high level of uncertainty in the minds of many consumers.

This declining confidence flowed through to the housing market, and with the reduction in the First Home Owners Grant we saw much of the lending activity from the previous year dissipate.

Whilst property prices were generally stable, home affordability continued to be a challenge for many prospective home owners. As a result all financial institutions experienced a flattening or downturn in demand for housing and this was particularly evident amongst first home buyers.

With that background, I am pleased to report that in 2010-11, HomeStart again had a most successful year by delivering strong financial results and significant contributions to the community.

During the year we settled $354.7 million worth of loans and enabled 1688 South Australians to enter into home ownership – a most noteworthy achievement.

HomeStart continued to provide home loans for many South Australians for whom mainstream lenders were not an option; in fact 85% of customers confronted this circumstance.

I am particularly pleased that notwithstanding the economic factors outlined above, 754 first home buyers were able to enter home ownership through HomeStart, representing 45% of our total lending for the year. This statistic alone amplifies the reason for HomeStart's existence and reinforces how we contribute to the economic fabric of the state by making home ownership achievable for more South Australians.

In terms of financial performance HomeStart achieved a profit before income tax equivalents of $15.5 million and a Return on Equity (ROE) of 9.92%. This was a most commendable result, particularly when taking into account the increase in the total return HomeStart provided to the South Australian Government this financial year – $36.9 million by way of fees, dividends and taxes, an increase of 77.4% on the previous year. These payments represent a return of 23.6% on the government's investment in HomeStart and are a significant financial contribution to the state. It is further worth acknowledging that since inception, HomeStart has returned funds to the government in excess of $296 million.

HomeStart continued to manage a balanced portfolio, ensuring the right mix of quality lending and sustainable subsidies for loans to those on lower incomes. Whilst HomeStart experienced an increase in arrears levels, these remained at industry comparable levels.

HomeStart also accomplished smooth implementation of the *National Consumer Credit Protection Act 2009* adopting the new Responsible Lending Guidelines and receiving an Australian Credit Licence. This was an important achievement which reinforces its commitment to operating within the broader home lending environment by adhering to a set of principles that underpin the integrity of the marketplace.

Looking ahead briefly to 2011-12, economic uncertainty will continue to prevail and we will see some sectors of the market experience varying degrees of financial stress. Whilst there are many drivers of a successful South Australian economy, a low level of unemployment will remain critical as consumer confidence is slowly restored. HomeStart will continue to play a pivotal role in assisting low to middle income South Australians start their journey of home ownership through our affordable home loan options.

In closing, I would like to take the opportunity to thank my fellow board members for their commitment and support throughout the year. I would also like to acknowledge the significant contribution that retiring board member Paula Capaldo made to the board in her capacity as Chair of the Audit Committee. Our new board member, Sue Edwards, brings with her a wealth of financial experience and I look forward to her input and involvement in the future.

Of course none of this would have been possible without the continued dedication and commitment of the staff of Homestart. To John Oliver and his team on behalf of the board, I offer congratulations for a job well done.

Claude Long
CHAIR
HomeStart Board

Report from the CEO

In reflecting on what made 2010-11 another year of achievement for HomeStart, I start by commending our people. Our success starts with our motivated and passionate staff. Their commitment, initiative and ability to challenge the status quo ensure we pursue our vision of making home ownership achievable for more South Australians. I continue to be inspired and proud to work with such a great team.

The 2010-11 financial year saw HomeStart deliver strong results, despite the ongoing challenges of a difficult, uncertain and inconsistent external economic environment, particularly in respect to housing. Our financial performance saw us generate a profit of $15.5 million and make payments to government of $36.9 million. We delivered a Return on Equity of 9.92%, maintained a sound capital base of $150.0 million, and from an operational and efficiency perspective, a cost to income ratio of 58.1%. These achievements reinforce the professional and prudent manner in which HomeStart is managed by the Executive Team and the board.

We continued to provide South Australians with genuinely affordable options to get started in the market. This year, 1688 households took advantage of our loans to become home owners, and of these, 45% were first home buyers, a fantastic achievement given the reduction of the First Home Owners Grant and virtual withdrawal of first home buyers from the housing market generally.

Our focus on credit management continued, enabling us to maintain arrears at industry comparable levels, despite a moderate increase reflective of an emerging trend amongst all financial institutions during the year. We created several new positions within our credit management and credit analysis teams to ensure we are prepared for challenging economic conditions.

HomeStart also saw 2010-11 as an opportunity to consolidate our internal structure and processes, with the aim of ensuring our customers are central to everything we do. This began at the highest level with a new planning process focused on pursuing key projects that contribute directly to achieving our vision.

We also introduced a long term initiative to improve and streamline our processes and operations. Several Operational Excellence (OE) initiatives are already underway to ensure optimal business efficiency. Many staff have undertaken OE training as we seek to embed a framework and set of disciplined principles that become 'the way we do business at HomeStart'.

Fresh tools were embraced to measure staff satisfaction as we sought to understand how our people perceive the culture of our workplace. The new 'cultural survey' provided us with the means to do so and we are now undertaking a range of activities to help make the shift toward our 'preferred culture'. One indication that we're on the right track is receiving our third consecutive 'Recommended Employer' award from the Australian Business Awards this year.

In May we launched a new Community Engagement Strategy which integrates our contributions to the community through sponsorships, donations and education. Of particular note is the introduction of one day's paid volunteer leave per year, which aligns with sound Corporate Social Responsibility principles. Having personally experienced the benefits of volunteering to make a difference through the St Vinnie's CEO Sleepout, I am happy to allow staff the opportunity to do the same.

In 2010-11 HomeStart entered the social media space by launching a dedicated YouTube channel and Facebook page. We have enjoyed this opportunity to connect with current and potential customers in a new way, and look forward to developing and expanding our presence in future.

Looking forward, I anticipate the coming year will see us continue to tackle and resolve issues around affordable home ownership. Our gains in efficiency and clearer planning process will allow us to generate new ideas and turn those ideas into outcomes which make a difference for more South Australians. I'm confident 2011-12 will bring the opportunity to launch new products, work with new industry and community partners, and help many more people become new home owners.

I also see the coming year as a chance to consolidate HomeStart's place in what we call the 'housing continuum' – the journey to home ownership. We are here to help people get started in home ownership – for the first time, or when they need a fresh start. Over time, many will arrive at a position where they may be able to move beyond HomeStart as their home loan provider and we will work with our customers and partners on ways we can facilitate their transition to mainstream lenders. It is imperative we embrace a strategy of transitioning customers so that we can help the next wave of new home owners get started.

In closing, I would like to thank HomeStart's Board and Executive Team for providing me with the support and guidance to lead the organisation through another successful year. I look forward to another year working closely with them to create home ownership opportunities for the people of our state.

John Oliver
CHIEF EXECUTIVE OFFICER
HomeStart Finance

Contents

Our organisation

Our vision

Making home ownership achievable for more South Australians.

Our values

- empathy in delivery
- leader in our field
- ethical in action
- commercial in thinking
- team player at heart.

1.1 Our role

HomeStart's role is to provide affordable home finance solutions which help South Australians into home ownership.

HomeStart was created by the South Australian Government in 1989 as a response to high interest rates and a lack of affordable home loan finance. At the time, these factors were significant barriers to home ownership.

As a statutory corporation established under the *Housing and Urban Development (Administrative Arrangements) (HomeStart Finance) Regulations* pursuant to the *Housing and Urban Development (Administrative Arrangements) Act 1995*, HomeStart is empowered to:

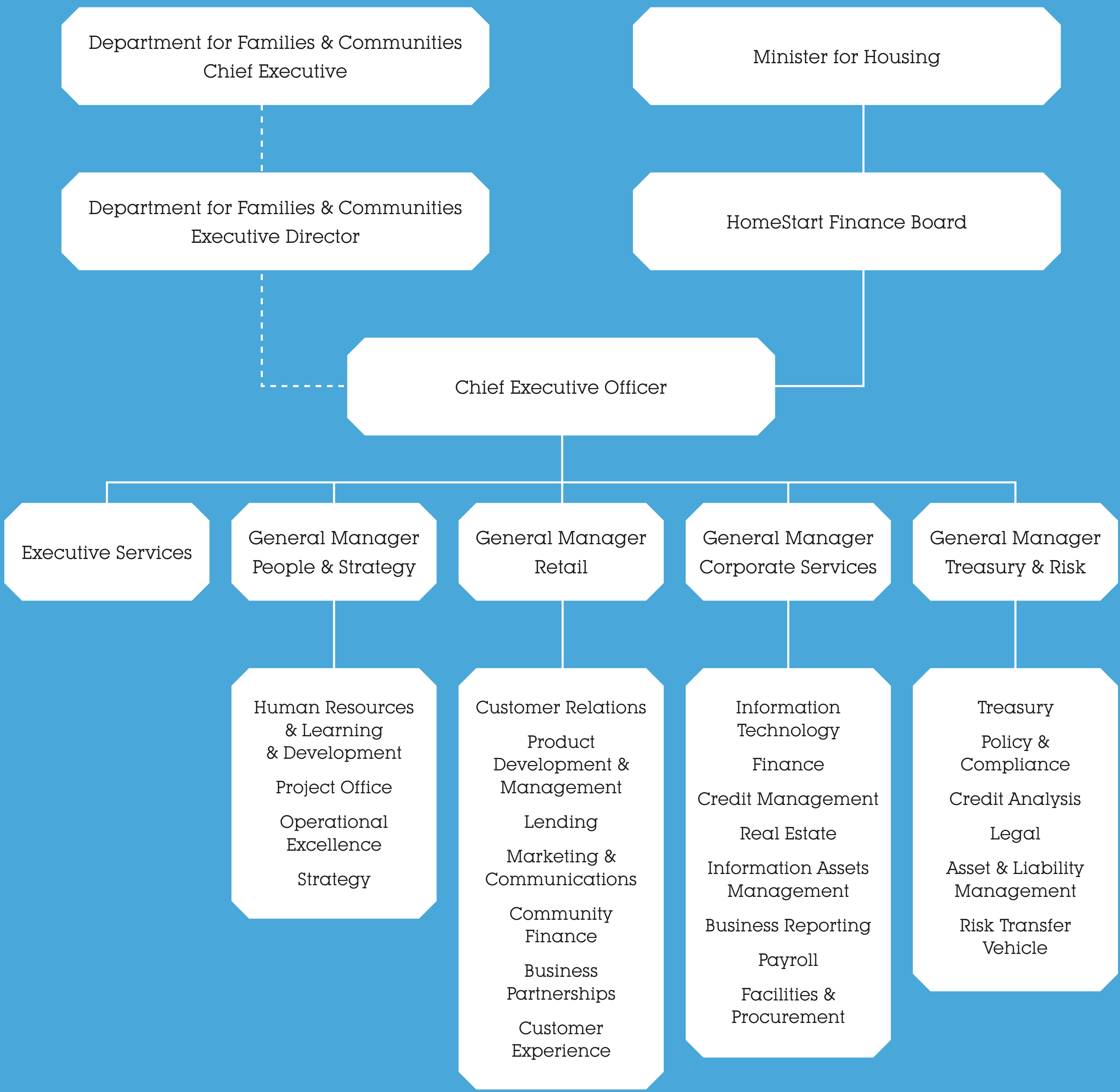
- facilitate home ownership in South Australia by lending and providing other forms of financial assistance, including finance on concessional or special terms for low to moderate income earners.
- provide, market, and manage home finance products and facilitate alternative schemes to encourage home 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 with the Department for Families and Communities to coordinate and deliver affordable housing opportunities to the community.

HomeStart liaises regularly with Housing SA (within the Department for Families and Communities) to develop housing initiatives and solutions, and is also 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 create affordable housing options through a whole-of-industry approach.

Organisational chart



1.2 Our customers

HomeStart's customers are central to every aspect of the business. From providing direct customer service through our Customer Contact Centre to creating efficiencies through cutting edge Information Technology solutions, we strive to balance the personal customer service we are renowned for with the business acumen that will allow us to help more people in the future.

HomeStart takes a proactive approach to addressing housing issues by creating innovative home finance products, which assist our customers to overcome barriers to entering the housing market.

A cross section of our customer base includes:

- first home buyers living with their parents wanting to move straight into home ownership
- private renters looking to escape the rental market and start building their wealth
- families needing to refinance after a separation or change in circumstances
- public housing tenants wanting to move out of rental accommodation
- migrants wanting to settle in South Australia
- graduates starting out in their career, and wanting to establish themselves in South Australia
- people living or wanting to settle in regional areas.

Notable changes to HomeStart's customer portfolio in 2010-11 compared with the previous year include:

- first home buyers accounted for 45% of HomeStart's new customers, down from 59%
- customers seeking refinance loans increased by 4% to 14%
- the average loan amount increased to $209 136 from $199 376 in the previous year
- customers who receive government benefits as their main source of income increased by 5% to 33%
- metropolitan customers earning less than $46 366 increased by 7% to 34%
- regional customers earning less than $39 334 decreased by 5% to 14%
- the average property purchase price for HomeStart customers increased to $243 462 from $231 348 in the previous year.

1.3 Our strategy

HomeStart plays a vital role in the housing market by making home ownership achievable for South Australians who have difficulty accessing home finance through mainstream lending channels.

HomeStart's strategy is designed to achieve this purpose, and is closely linked to the objectives of South Australia's Strategic Plan, which strive to increase affordable housing solutions and reduce the number of South Australians experiencing housing stress.

In 2010-11 HomeStart introduced a tool to align all projects and initiatives with the vision and core objectives, called the Strategic Deployment Plan (SDP).

The SDP has four key objectives which will be used to measure all Key Performance Indicators and to align every project and initiative carried out in HomeStart. These are:

- create customer value
- achieve financial sustainability
- pursue business excellence
- achieve through people.

The SDP is now used as the key planning and resource tool for all divisions and teams across the organisation. It has streamlined decision making and prioritising, helping to create efficiencies and a collaborative focus.

The SDP is also used by each employee when planning personal development and performance reviews. This enables staff to understand their role and contribution to the vision and objectives of the organisation.

In 2010-11 HomeStart also introduced the concept of continuous improvement via a new Operational Excellence unit in its People and Strategy division. This new unit will equip all employees with the tools and abilities to problem solve and improve their outputs and processes for the ultimate benefit of HomeStart customers.

All employees have undertaken Operational Excellence training and a number of improvement projects are underway.

1.4 Strategic plan targets

During 2010-11 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 2.12: Work/life balance
- Target 6.24: Aboriginal employees
- Target 6.6: Homelessness
- Target 6.9: Aboriginal housing
- Target 6.10: Housing for people with disabilities.

Our progress

'The Graduate Loan gave us the flexibility we needed to build. The fact that we did not need to make mortgage repayments until the house was built made it easier for us. We weren't "double dipping" by paying a mortgage and rent.'

Nick Prokopec and Alexia Cafcakis

2010-11 was a tough year for those operating in the housing finance arena. While house prices stabilised as a result of reduced property demand, consumer confidence in the economy was shaky and households exercised caution across all spending, saving at a rate not seen since the 1990s.

While South Australia experienced a slight improvement in the affordability gap with wages outperforming the increase in house prices for the first time in many years, this did little to change the significant gap between what people earn and how much it costs to buy a home.

Banks maintained strict lending criteria put in place after the Global Financial Crisis (GFC), making it difficult for aspiring home buyers to access finance.

In this environment, HomeStart's place as an alternative option for South Australians looking to achieve home ownership was once again evident in our progress over the financial year. This includes our strong financial performance and lending volumes, outstanding customer service and careful arrears management.

Our progress can also be seen in our internal accomplishments, which this year were focused on improving efficiencies, developing connections with potential partners in affordable housing projects, and extending and improving communication with customers and business partners.

Underpinning all of our activity was the introduction of the Federal Government's *National Consumer Credit Protection Act 2009* (NCCP).

The NCCP encourages more responsible lending and reduces the ability to provide credit products and services that are unsuitable for the consumer's needs and that the consumer does not have the capacity to repay.

HomeStart successfully completed implementation of the NCCP on 1 January 2011. This included reducing discharge and dishonour fees on new loans, and removing exit fees. HomeStart was officially granted its Australian Credit License in February 2011.

2.1 Lending

While HomeStart was not immune to the downward trend in demand for home finance, 2010-11 saw us assist 1688 households into home ownership, with total lending volumes reaching $354.7 million. This is down slightly from 2009-10, but relatively positive given lows in lending across the entire industry that haven't been seen since the early 2000s.

For many potential home buyers, the combination of factors such as strict lending criteria at mainstream banks, a lack of confidence in the economy and phasing out of government First Home Owner Grants were significant hurdles to achieving their goals.

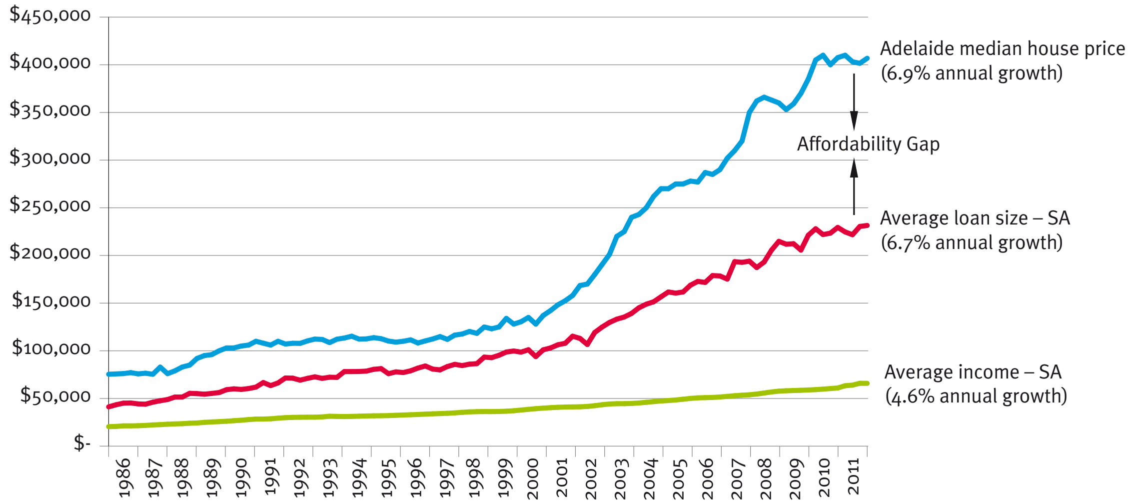
HomeStart was able to fill a gap in the market and offer more South Australians an affordable option by maintaining a Loan to Valuation Ratio (LVR) of 97% on two of its loan products. This, coupled with charging a Loan Provision Charge instead of Lenders Mortgage Insurance, equated to far less upfront costs for many homebuyers.

While HomeStart saw a decline in the proportion of new lending to first home buyers, this can be attributed to the demand brought forward by stimulus offerings in the previous year. The proportion of first home buyers on our books is now more in line with historical levels.

In 2010-11, HomeStart also saw an increase in customers refinancing to our loans, and a decrease in those refinancing away. This is indicative of the perceived 'safety net' HomeStart provides in the form of the Repayment Safeguard, which helps break the link between repayments and interest rates.

Also of note in 2010-11 was the impact of under-employment on a significant portion of our customer base. Under-employment, where workers scale back hours and wages rather than become unemployed, is a great success story of the industrial relations regime, when compared with previous generations where workers were simply laid off.

HOUSING AFFORDABILITY



Source: Australia Bureau of Statistics, REIA and HomeStart internal calculations.

However, the reduction in wages affected many HomeStart customers' ability to meet their repayments. Our customer service representatives acted with empathy during this time, working with individuals on a case-by-case basis to help them maintain their loan repayments and stay in their homes.

In the coming year, HomeStart will further improve its internal systems to provide a more efficient and professional lending service to customers and business partners.

In 2010-11 the groundwork commenced to implement a new front end loan system which will improve loan processing procedures.

The new system will deliver more efficiency for staff, customers and third party lenders, with the ability for third party business partners to load their loans directly into the system, speeding up loan processing for the customer and removing the need for HomeStart staff to key in loan information manually.

2.1.1 Key loan results

In 2010-11 HomeStart continued to focus on its core business – delivering affordable home loans to South Australians. This goal was achieved while maintaining sound risk levels and ensuring a strong Return on Equity to our government stakeholder.

HomeStart customers benefited from home loan features such as the Repayment Safeguard, which breaks the link between interest rates and home loan repayments.

Innovative and unique loan features such as the Repayment Safeguard underpin HomeStart's loan products, and is one way in which we address barriers to home ownership such as affordability.

2.1.2 Graduate Loan

In 2010-11, HomeStart settled 170 Graduate Loans, bringing the total number to 1675 since the loan commenced in 2002.

The Graduate Loan offers graduates who have a diploma, degree or higher qualification, as well as South Australian Police Officers and enrolled nurses, with the opportunity to enter home ownership with less deposit upfront.

2.1.3 Breakthrough Loan

Demand for the Breakthrough Loan remained steady in 2010-11, with 143 Breakthrough Loans settled totalling $12.1 million (Breakthrough component) and $27.5 million (HomeStart loan component). This brings the total number of Breakthrough Loans to 956 since its launch in 2007.

Customers can use the Breakthrough Loan to boost their borrowing power by 35%, without increasing home loan repayments, or to reduce their mortgage repayments.

The Breakthrough Loan is combined with another HomeStart loan and is based on a shared appreciation arrangement where the customer shares a portion of the home's change in value (capital gains or losses) with HomeStart when the property is sold.

In October 2010 HomeStart received the results of part two of a research study commissioned by HomeStart and conducted by the University of Adelaide looking at the economic impacts of the Breakthrough Loan.

The survey results conclude the Breakthrough Loan has had an overwhelmingly positive impact on customers' lives:

- 91% of participants report some degree of increased feeling of financial security
- many participants (within a range of 35-44% of the whole Breakthrough Loan population) were able to purchase a home in a better suburb or a larger home (within a range of 28-39%) than would have been possible with a traditional home loan
- customer satisfaction also came in high, with almost 79% experiencing some level of satisfaction and over 45% agreeing that they would definitely recommend the Breakthrough Loan to others.

2.1.4 Loans for construction

In 2010-11 HomeStart settled 132 loans for construction, a decrease of 56% from the previous year. The decrease can be partly attributed to removal of the state government's First Home Owner 'Boost' Grant, which was put in place to support the construction industry through the GFC.

Of these loans, 60% were for first home buyers compared to 74% in the previous year, which is reflective of the general decline in first home buyer numbers.

HomeStart's loans for construction offer customers flexible benefits such as the ability to defer home loan repayments until construction is complete or for nine months (whichever comes first).

2.1.5 Low Deposit Loan

HomeStart settled 92 Low Deposit Loans in 2010-11 to the value of $24.3 million.

The Low Deposit Loan provides people looking to purchase a home in the metropolitan area with the opportunity to enter home ownership with less deposit upfront.

Eligible customers can borrow up to 97% of the property purchase price or value (whichever is less), to help them enter home ownership sooner.

2.1.6 EquityStart Loan

HomeStart settled 38 EquityStart Loans in 2010-11, bringing the total number of loans to 1174 since the product was launched in 2005.

The EquityStart Loan is an additional loan of up to $50 000 for current public housing tenants. It is combined with a HomeStart loan to boost borrowing power. Customers can use it to buy the Housing SA home they're living in (if it's for sale), another Housing SA property, buy on the private market, or build.

The EquityStart Loan is a joint initiative of HomeStart and the Department for Families and Communities.

2.1.7 Advantage Loan

HomeStart settled 269 Advantage Loans in 2010-11 to the value of $5.5 million.

The Advantage Loan is designed to help low income earners (with a total household income of less than $36 980 per annum) achieve home ownership. The Advantage Loan offers customers an additional loan of up to $30 615 and is combined with another HomeStart loan to boost borrowing power.

2.1.8 Nunga Loan

Four Nunga Loans were settled in 2010-11 to the value of $691 000, bringing the total number of Nunga Loans to 427.

The Nunga Loan assists South Australians of Aboriginal or Torres Strait Islander origin the opportunity to buy a home in South Australia. It offers a low deposit, manageable repayments and flexible loan options.

2.2 Regional lending

HomeStart continued to service a strong customer base in regional South Australia in 2010-11, with regional lending making up over a quarter (29%) of HomeStart's new lending. However, loans to customers in regional areas decreased in 2010-11 to 496 (928, 2009-10).

2.3 Distribution network

HomeStart has worked hard over the past 12 months to extend its reach and improve its service to customers by strengthening its distribution network.

HomeStart's distribution strategy aims to make its home loans accessible to as many customers as possible while maintaining efficient service and consistent pricing.

That involves working through three channels including two HomeStart branches (Adelaide and Whyalla); four loan managers (BankSA, The Home Loan Centre, Home Loans Plus and Bernie Lewis); and a broker network.

Since the commencement of HomeStart's broker network in 2009, HomeStart has accredited 100 individual brokers from 14 different groups.

During 2010-11 HomeStart invested resources in educating and providing a more professional service to the broker network.

HomeStart's secure extranet site and third party newsletter for brokers, GreenLight, was reviewed, revamped and relaunched in May 2011.

These new efficiencies place HomeStart in a strong position to continue to extend its broker network in the coming year.

2.4 Customer service

HomeStart's customer service can be described as local, friendly, responsible and sympathetic. These values set us apart from other lenders.

HomeStart takes an integrated approach to customer service, offering numerous touch points including branches, our Customer Contact Centre (CCC), and our online loan management system, eHomeStart, for self-service.

The CCC takes and refers leads for approximately 50% of HomeStart settlements, with the other half driven through third party lender channels.

In 2010-11 HomeStart recorded more than 42 000 inbound and outbound customer contacts across all channels. Of these contacts, 7696 were leads from people looking at new loans and 21 644 of these were other loan enquiries.

In 2010-11 HomeStart's customer service strategy focused on improving communication, efficiencies and processes.

We reviewed and improved all customer communication related to lending, and implemented automatic email and SMS notifications for customers applying for a loan.

In 2010-11 customer enquiries from the website increased from 162 in the July quarter of 2010 to more than 300 a month in the July quarter of 2011 to date. This was driven by the refresh of HomeStart's website including the implementation of a new Search Engine Optimisation strategy, and the launch of a social media presence across Facebook and YouTube.

2.5 Affordable housing

Affordable housing provides South Australians on low to moderate incomes with access to home ownership or rental accommodation that is within their means, is well built and located close to transport, shops and community services. It is a basic right of all people to have access to suitable accommodation and is essential to the health, wellbeing and sustainability of South Australia's local communities.

HomeStart works closely with other businesses, local governments, not-for-profit groups and government agencies to facilitate innovative home loan packages which support a higher level of participation in home ownership by low to moderate income households.

The past year has seen the development of strategic partnerships that will lay the foundations for delivering home ownership outcomes, such as:

- partnership with the City of Salisbury to expand the successful Brahma Green Shared Appreciation concept to a further 45 households

- partnership with Housing SA to develop the Shared Value Home Loan as part of the South Australian Government's 15% affordable housing policy for significant new housing developments
- partnership with the Adelaide City Council to develop up to 45 inner city apartments to be made available to moderate income earners
- development of relationships with builders to minimise the entry costs of constructing a home.

2.6 Community Lending

HomeStart's Community Lending team works with Community Housing Organisations (CHOs) to increase the supply of suitable, long term, affordable rental housing in South Australia.

There is a marked undersupply of affordable rental accommodation in South Australia and HomeStart's financing of CHOs has contributed to reducing waiting lists for rental accommodation and homelessness.

HomeStart's specialist Community Lending team partners with federal and state government agencies, who provide grant funding and National Rental Affordability Scheme (NRAS) incentives, as well as benevolent associations who provide gift funding, to deliver community lending finance to CHOs.

HomeStart's loan funds are only utilised after all government grant funding, gift funding and customer cash have been used in land purchase and house construction. HomeStart then provides top up funding through its Flexicom loans to complete the housing deal.

Due to reduced government grant funding, there were fewer viable loan requests in 2010-11 than the previous year.

In 2010-11 HomeStart Community Lending approved finance for 27 housing outcomes to the value of $3.2 million in loans and loan draw-downs of $12 million from loans approved in 2009-10. HomeStart has achieved 270 housing outcomes in the past two years to the value of $20.9 million in loans.

2.7 Brahma Green

On 6 July 2010, HomeStart along with the City of Salisbury, held an event to celebrate the completion of Brahma Green, the affordable housing initiative created by the City of Salisbury, HomeStart and McCracken Homes.

Brahma Green has assisted 11 households on low to moderate incomes into home ownership by using surplus council land to provide affordable, quality, environmentally friendly house and land packages.

The innovative shared appreciation Brahma Green Loan, which was developed by HomeStart with the City of Salisbury, increased the buyers' borrowing capacity by up to 30% without adding to loan repayments.

On the strength of this project, HomeStart is looking at developing additional joint housing initiatives in the coming year.

2.8 Community contribution

HomeStart works with a wide variety of organisations, not-for-profits and events that share our values and bring about positive social outcomes for the South Australian community.

In 2010-11 HomeStart launched a new Community Engagement Strategy (CES) to centralise community engagement activities and take a unified approach to community contribution.

The CES involves partnering with staff, the general public and community groups for initiatives that will provide benefits to the community across four key focus areas:

- education and youth
- community wellbeing
- Indigenous matters
- shelter.

Community engagement initiatives will be delivered via four areas of activity: sponsorships; seminars; corporate volunteering and donations and fundraising.

2.8.1 Sponsorship

HomeStart signed its first major joint naming rights sponsorship in 2010-11, The Advertiser HomeStart Trailblazer Challenge. HomeStart is extremely proud to be sponsoring the Trailblazer Challenge for three years, with proceeds from the challenge supporting the world leading Operation Flinders program for youth at risk.

The remainder of HomeStart's sponsorship budget will go towards a range of partners including universities, sporting clubs and industry associations.

2.8.2 Seminars

HomeStart's seminar program operates six major seminars a year, educating people about the home buying process. Seminar attendance in 2010-11 averaged 71 people per seminar, up from 55 people per seminar in the previous year. The majority of the attendees are first home buyers and graduates.

HomeStart also held four smaller seminars at various communities organisations, and introduced a Home Buyers DVD, which has been distributed to approximately 100 organisations.

2.8.3 Corporate volunteering

As part of the new CES, HomeStart has approved one day a year of paid volunteer leave for each eligible staff member. This can be taken as an individual or as a team or department.

Staff can choose to volunteer with a range of approved partners, who fall into HomeStart's key focus areas. HomeStart has developed a relationship with Corporates4Communities to implement this initiative.

2.8.4 Donations and fundraising

HomeStart's CES enables us to make donations to a total of $25 000 each year. Community groups can apply for a donation and will be assessed based on criteria in relation to the key focus areas. In addition, HomeStart has reshaped its casual day fundraisers to create more awareness about fundraising activities amongst staff, and enhance team building across the organisation.

2.9 Social media

Inspired by the accelerated growth and increased usage of social networks over the past year, in 2010-11 HomeStart launched a social media strategy which aims to raise awareness of the HomeStart brand and increase customer engagement through participation in social media platforms.

The following activities have been implemented to date:

- monitor HomeStart's social media presence using media monitoring tools such as socialmention.com
- establish a presence on selected social media sites via Facebook and YouTube. Our YouTube channel has had 1300 views to date
- increase customer engagement through the use of online video in the form of 'Ask the CEO' and 'Ask the Lender'
- enhance social media tools available on HomeStart's website including the development of a subscription based newsletter @home, which already has more than 500 subscribers.

2.10 Green initiatives

HomeStart's Sustainability Team actively promotes environmentally friendly practices within the organisation.

HomeStart has been running a competition across all departments to reduce the amount of colour printing and engage staff in a sustainability initiative. The results for 2010-11 have seen dramatic improvements.

In 2009-10 HomeStart reduced colour printing by 28.8% from $12 556 down to $8937. In the period from January to May in 2010, HomeStart's colour printing costs were $11 007. For the same period in 2011 these costs reduced to $5261 – a 52.2% drop was achieved in 12 months.

HomeStart will be introducing a more comprehensive recycling program in the coming year to save money and reduce paper usage. This initiative includes providing board members with electronic tablets to access board papers, rather than hard copies. A number of executives also use tablets instead of printing paper for meetings and other business purposes.

HomeStart's waterless urinals continue to create water efficiencies across the organisation.

Our people

'The repayments on my loan are not as much as they would have been on a normal loan, so I can pay my children's school fees. The Breakthrough Loan has helped me a lot with financial relief.'

Manyok Ajak and Abul Daaw

HomeStart has a longstanding reputation for genuine commitment to its people. In 2010-11, we continued to focus on the development and personal satisfaction of employees, empowering them to collaborate, contribute and grow whilst meeting business objectives. This includes high level development activities, along with effective flexible work policies that balance employee and business needs.

Our focus on staff is matched by their commitment to the organisation, as reflected in our on-going high levels of staff retention despite internal change and increasingly challenging market dynamics.

As testament to this mutually beneficial relationship HomeStart was awarded 'Recommended Employer' by the Australian Business Awards for the third consecutive year, and the fourth year in total.

3.1 Highlights for 2010-11

During 2010-11 HomeStart embarked on a range of projects and initiatives focused on capacity building, empowerment and accountability to improve organisational sustainability and performance.
This included:

- substantial investment in business planning, linking priorities for the coming period to individual performance plans and Key Performance Indicators
- introduction of a new business unit called Operational Excellence to improve organisational structures and systems
- introduction of a diagnostic tool to enhance organisational culture, ensuring that behaviours and actions underpin and support performance expectations.

3.2 Communication, engagement, culture

HomeStart makes a concerted effort to regularly engage employees in whole-of-organisation activities, projects and planning. This includes strategic and business unit planning, staff meetings, social events, support for charities, and our annual 'Opening Doors' staff day. Opening Doors focuses on personal development and team building.

HomeStart's Consultative Committee is a primary vehicle for communication and consultation with employees. The committee comprises staff across all departments, management and human resources. Its purpose is to shape employment conditions and policies, raise employment-related topics for discussion and monitor the interpretation and application of HomeStart's Enterprise Agreement. In June 2011 negotiations were completed on the HomeStart Finance Enterprise Agreement 2011. Once again, HomeStart's Consultative Committee was instrumental in ensuring a productive, collaborative approach between employer and employees.

3.3 Employee development

HomeStart continues to invest in the development of its employees through a range of tertiary courses and tailored opportunities. In 2010-11 HomeStart developed a three-pronged plan targeting leadership capacity building, formal tertiary courses for select employees, and a program of targeted cross-organisational development in the areas of 'giving and receiving feedback' and operational excellence.

Formal qualifications obtained during the year include a Diploma of Project Management, Certificate IV in Project Management and the University of Adelaide's Professional Management Program.

3.4 Performance management

HomeStart's approach to performance management is twofold. First, a focus on individual performance underpins the success of the organisation. Secondly, effective performance management forges stronger employer-employee relationships and more effective development and satisfaction for employees. In 2010-11 HomeStart concentrated significant effort on improving its performance management system and program of activities for all staff. This involved a full revision of HomeStart's behavioural objectives framework, ensuring a dual focus on achieving outcomes and demonstrating appropriate behaviours in keeping with HomeStart's preferred culture. A regular program of one-on-one meetings between employees and their manager, from the CEO down, supports the formal mid-year and end-of-year reviews that form part of the performance management effort.

3.5 Workplace benefits

HomeStart offers flexible working arrangements and benefits which balance the needs of employees and the business. In 2010-11, a thorough consultative process ensured all employees were aware of the options available to them as part of the Enterprise Agreement negotiations. Significant effort was made to simplify and clarify procedures for accessing these arrangements and benefits, which included:

- job share, work from home, part-time work
- family, carer's and bereavement leave
- fourteen weeks paid maternity leave and four weeks paid paternity leave
- ability to purchase additional annual leave
- leave to support further study
- onsite carer's room
- annual Healthy Lifestyle Benefit for participation in activities that contribute to a healthy lifestyle
- influenza vaccinations
- salary continuance insurance
- Employee Assistance Program offering access to counselling services.

3.6 Our people – statistics

DOCUMENTED INDIVIDUAL PERFORMANCE DEVELOPMENT PLAN

Employees with	% of total workforce
A review within the past 12 months	98.0%
A review older than 12 months	2.0%
No review	0.0%

CULTURAL AND LINGUISTIC DIVERSITY

	Male	Female	Total	% of agency	SA community*
Number of employees born overseas	5	15	20	20.0%	20.3%
Number of employees who speak language(s) other than English at home	0	8	8	8.0%	16.6%

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

EMPLOYEE NUMBERS, GENDER AND STATUS

Total number of employees		
Persons	100	
Full-time equivalents (FTEs)	90.3	(FTEs shown to 1 decimal place)

Gender	% Persons	% FTEs
Male	39.0%	43.0%
Female	61.0%	57.0%

Number of persons during the 2010-11 financial year	
Separated from the agency	16
Recruited to the agency	13

Number of persons at 30 June 2011	
On leave without pay	3

NUMBER OF EMPLOYEES BY SALARY BRACKET

Salary bracket	Male	Female	Total
$0 – $50 399	4	13	17
$50 400 – $64 099	6	20	26
$64 100 – $82 099	9	14	23
$82 100 – $103 599	7	5	12
$103 600+	13	9	22
Total	**39**	**61**	**100**

STATUS OF EMPLOYEES IN CURRENT POSITION

Full-time equivalents	Ongoing	Short-term contract	Long-term contract	Other (casual)	Total
Male	1	1	36.8	0	38.8
Female	0	1.2	50.3	0	51.5
Total	**1**	**2.2**	**87.1**	**0**	**90.3**

Persons	Ongoing	Short-term contract	Long-term contract	Other (casual)	Total
Male	1	1	37	0	39
Female	0	2	59	0	61
Total	**1**	**3**	**96**	**0**	**100**

AVERAGE DAY'S LEAVE PER FULL-TIME EQUIVALENT EMPLOYEE

Leave type	2010-11	2009-10	2008-09	2007-08
Sick leave	7.4	5.9	5.9	6.7
Family carer's leave	1.8	1.3	1.3	0.8
Miscellaneous special leave	0.5	0.3	1.0	0.3

VOLUNTARY FLEXIBLE WORKING ARRANGEMENTS BY GENDER

Leave type	Male	Female	Total
Purchased leave	1	1	2
Flexitime	0	0	0
Compressed weeks	0	1	1
Part-time	1	25	26
Job share	0	4	4
Working from home	15	16	31

ABORIGINAL AND/OR TORRES STRAIT ISLANDER EMPLOYEES

Salary bracket	Aboriginal employees	Total employees	% Aboriginal employees	Target*
$0 – $50 399	0	17	0.0%	2%
$50 400 – $64 099	1	26	3.9%	2%
$64 100 – $82 099	1	23	4.4%	2%
$82 100 – $103 599	0	12	0.0%	2%
$103 600+	0	22	0.0%	2%
Total	**2**	**100**	**2.0%**	**2%**

* Target from South Australia's Strategic Plan.

NUMBER OF EMPLOYEES BY AGE BRACKET AND GENDER

Age bracket	Male	Female	Total	% of total workforce	Workforce benchmark*
15-19	0	0	0	0.0%	6.4%
20-24	0	2	2	2.0%	10.4%
25-29	2	6	8	8.0%	11.0%
30-34	4	11	15	15.0%	10.1%
35-39	5	14	19	19.0%	10.3%
40-44	9	11	20	20.0%	11.0%
45-49	7	9	16	16.0%	11.5%
50-54	7	5	12	12.0%	11.4%
55-59	3	2	5	5.0%	9.4%
60-64	2	1	3	3.0%	5.5%
65+	0	0	0	0.0%	3.0%
TOTAL	**39**	**61**	**100**	**100.0%**	**100.0%**

* 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 2011.

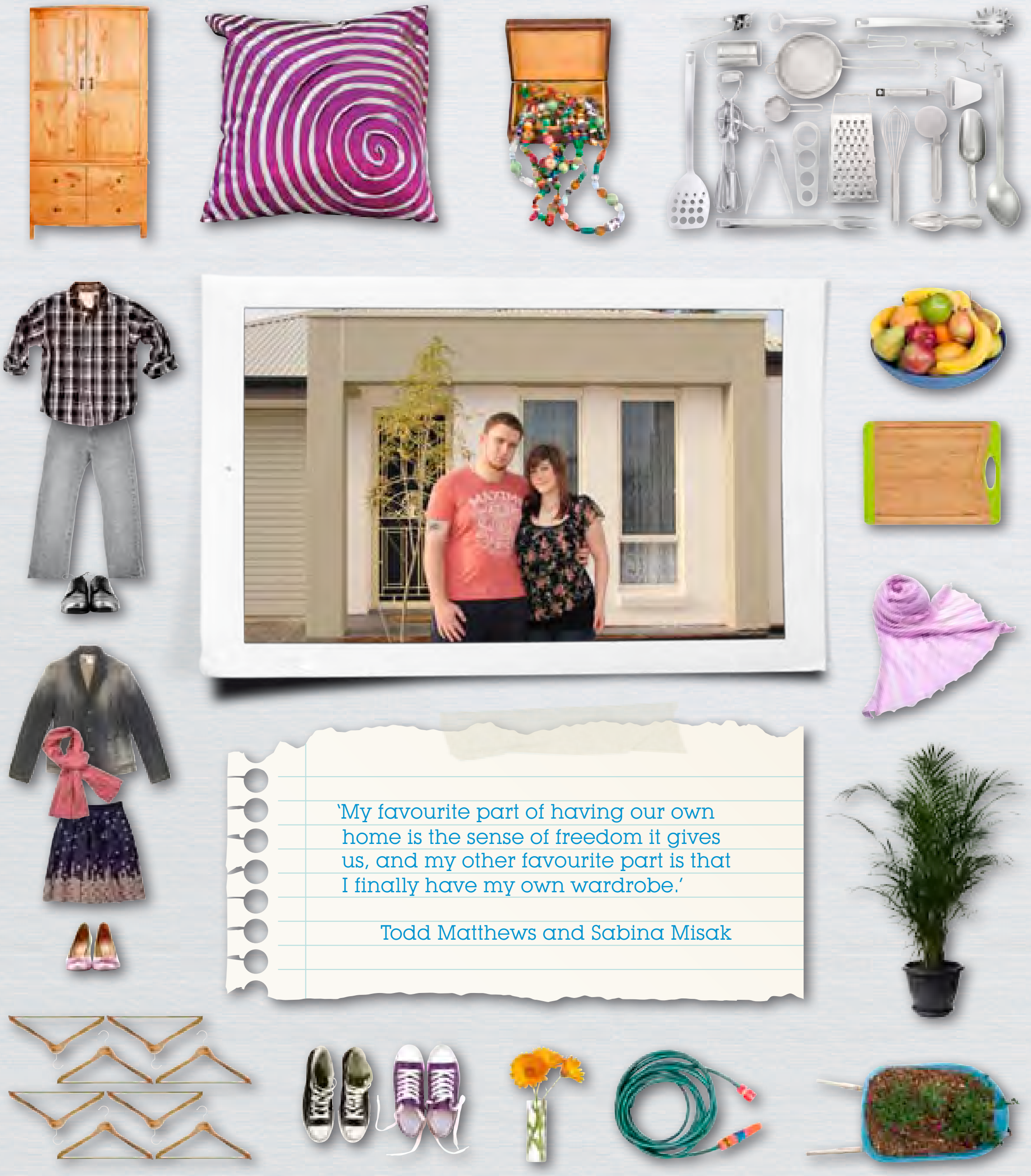
LEADERSHIP AND MANAGEMENT TRAINING EXPENDITURE

Training and development	Total cost	% of total salary expenditure
Total training and development expenditure	$564 536	6.0%
Total leadership and management development	$139 458	1.5%

EXECUTIVES BY GENDER AND STATUS

	Ongoing		Term Tenured		Term Untenured		Other (Casual)		Total	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Total	0	0	0	0	4	1	0	0	4	1

Our business



4.1 Sustainable financial management

HomeStart's 2010-11 financial results were excellent. They are attributable to our continued focus on commercial objectives, and a strong risk management culture balanced with our social obligations for customers and stakeholders.

Financial targets achieved this year include an operating profit before tax of $15.5 million, ($16.8 million, 2009-10) against a budget of $11.0 million, representing a sound Return on Equity of 9.92% against a target of 9%. These results are particularly noteworthy given the increase in HomeStart's guarantee fee imposed by the Department of Treasury and Finance, from 0.75% of outstanding borrowings in 2009-10 to 1.50% in 2010-11.

Our sound debt management and pricing strategies proved crucial in a changeable market. Improving operating efficiencies and containing costs were a focus during the year and will continue to be a priority in 2011-12. HomeStart's core business of mortgage lending continued to perform well due to solid growth in our loan portfolio.

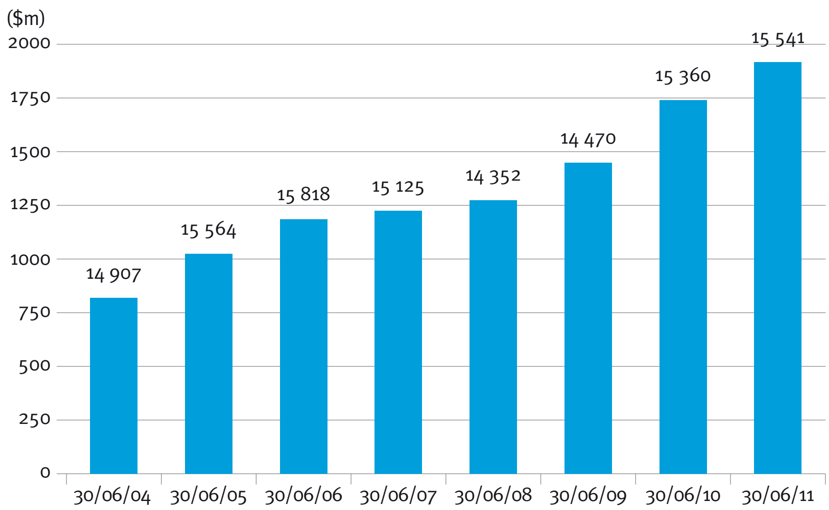
HomeStart continued to provide substantial payments to government, which this year amounted to $36.9 million and have totalled $296.6 million since inception. Under the Community Service Obligation (CSO) subsidy arrangements which commenced in 2007-08, HomeStart received a CSO reimbursement from government of $4.5 million in 2010-11.

HomeStart's debt funding from the South Australian Government Financing Authority (SAFA) grew to $1760 million against a borrowing limit of $1900 million. Our capital adequacy ratio has reduced to 13.7% (14.5%, 2009-10) reflecting the solid growth in the lending portfolio over the last twelve months.

4.1.1 Asset and liability management

In 2010-11, the lending portfolio grew by 10.1% to $1917 million ($1740 million, 2009-10), as a result of steady settlement levels and relatively low discharges over the last twelve months. To ensure continued availability of some higher risk products in response to market need, HomeStart maintained a prudent approach to credit quality and provisioning by utilising credit risk management systems to inform lending decisions, and to allocate and monitor appropriate benchmarks for portions of the lending portfolio.

PORTFOLIO SIZE – NO. AND VALUE OF LOANS OUTSTANDING



4.1.2 Finance, Treasury and Risk teams

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
- legal compliance.

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

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. From July 2011, this approach will be further enhanced by the implementation of the Strategic Deployment Plan methodology, which will assist HomeStart in translating its key organisational objectives more effectively into tangible action plans.

4.1.3 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 limits 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.

4.1.4 Risk Transfer Vehicle (RTV)

In July 2000, HomeStart's board 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. Initially funded with $20 million, the RTV's investments now total $46.3 million.

The Asset and Liability Committee engages investment advisory companies to regularly review the RTV's investment strategy to ensure it is still appropriately matched to HomeStart's overarching investment and business objectives and actuaries to undertake an annual review of projected future loan loss levels.

4.1.5 Provisioning

HomeStart has recognised specific and collective provisions of $15.66 million ($15.36 million in 2009-10) 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.

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 losses incurred against its loan portfolio will ultimately exceed the value of its provisions. It therefore maintains a general reserve for credit losses of $8.80 million ($11.05 million, 2009-10). 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.

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.

FINANCIAL HISTORY TABLE

	2004	2005	2006	2007	2008	2009	2010	2011
Financial indicators								
Operating profit ($m)	4.4	6.4	7.1	11.9	6.8	10.2	16.8	15.5
Return on equity	3.2%	4.7%	4.95%	8.07%	8.43%	6.95%	11.41%	9.92%
Net interest margin	1.9%	1.7%	1.3%	1.4%	0.73%	1.2%	0.94%	0.67%
Balance sheet strength								
Capital ($m)	136.5	136	139[1]	149.6	153.4	138.9	155.1	157.9
Provisions ($m)	16.4	17.8	7.7[1]	9.3	11.8	14.0	15.4	15.7
Loan assets ($m)	818.7	1024.3	1186.2	1223.2	1258.7	1432.7	1725.2	1901.9
RTV investments ($m)	23.7	33.5	39.0	45.5	41.9	39.3	42.6	46.3
Net loan losses ($m)	0.02	0.02	0.01	0.02	0.01	0.07	0.04	0.13

[1]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.

FINANCIAL CONTRIBUTIONS TO THE STATE GOVERNMENT

$296.6 million paid to the state government since inception.

Payment Type ($m)	1995[2] - 2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
Guarantee fee	43.7	5.0	5.0	4.6	4.6	5.6	7.3	7.1	6.7	7.6	10.7	23.8	131.7
SAFA[3] admin fee	1.3	0.6	0.5	0.5	0.5	0.7	0.8	0.9	0.9	1.0	1.1	1.1	9.9
Income tax	17.4	3.0	2.1	2.5	2.6	1.4	2.0	2.9	2.3	3.3	3.4	4.7	47.6
Dividends	27.0	1.7	2.2	2.0	1.0	1.5	1.6	2.7	2.2	5.3	5.6	7.3	60.1
Capital Repatriation	25.0	3.3	2.8	3.0	4.0	3.5	3.4	2.3	0.0	0.0	0.0	0.0	47.3
Total paid	114.4	13.6	12.6	12.6	12.7	12.7	15.1	15.9	12.1	17.2	20.8	36.9	296.6

[2]No payments made prior to 1995.

[3]South Australian Government Financing Authority.

ACCOUNT PAYMENT PERFORMANCE

Particulars	Number of accounts paid	Percentage of accounts paid (by number)	Value in $A of accounts paid	Percentage of accounts paid (by value)
Paid by the due date	3910	98.9%	6 688 650	98.4%
Paid late, within 30 days of due date	27	0.7%	54 192	0.8%
Paid more than 30 days from due date	14	0.4%	55 434	0.8%

4.2 Corporate governance

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

HomeStart is subject to the control of the Minister for Housing and is an agency within the Families and Communities portfolio.

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

4.2.1 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 2010-11 are identified on page 36.

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.

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.

4.2.2 Audit Committee

This committee was chaired by Paula Capaldo until December 2010 and then by Sue Edwards for the remainder of the financial year. It 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 the status of operational risks
- reviewing the financial reporting processes and outputs
- monitoring and reviewing compliance with relevant laws and regulations
- monitoring the internal and external audit functions
- monitoring internal control processes.

4.2.3 Asset and Liability Committee

This committee is chaired by Jim Kouts and includes two other board member representatives, along with management personnel. The committee ensures 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
- manages the Risk Transfer Vehicle in accordance with an established charter, policies and procedures
- monitors all credit and market risks.

4.2.4 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*.

The board assesses the performance of the Chief Executive Officer on a regular basis against current strategic and business objectives.

4.2.5 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.

4.2.6 Board member benefits

During or since the 2010-11 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.

4.2.7 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.

4.2.8 Risk management

HomeStart has an organisational-wide approach to managing risks to ensure 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 commercial best practice.

While risk management remains the primary responsibility of the board, each board sub-committee has 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 31 000) 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
- the identification and assessment of risk incidents
- comprehensive reporting
- participation in the annual SAICORP Risk Management Self-Assessment and Benchmarking Program
- organisation-wide feedback on existing and emerging risks.

4.2.8.1 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.

4.2.8.2 CREDIT RISK

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

In early 2011, the organisation's credit risk and credit management functions were reviewed and consolidated, with the view to maximising efficiencies and enhancing accountability.

HomeStart's arrears have increased over the 2010-11 financial year but remain at relatively low levels.

4.2.8.3 MARKET RISK

A comprehensive Treasury Master Document sets out the policies which govern HomeStart's funding and interest rate risk management 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, Treasury and Risk and the Corporate Treasurer. Our monitoring and forecasting is facilitated by sophisticated risk management software.

4.2.8.4 OPERATIONAL RISK

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

4.2.9 Compliance, internal control and assurance

HomeStart's board is responsible for overseeing HomeStart's compliance performance. The Audit Committee, in its key role of assisting the board to fulfil its corporate governance objectives, is responsible for monitoring and reviewing HomeStart's compliance performance. During 2010-11, HomeStart developed and implemented a new organisational compliance framework to identify and assess our legal obligations and manage and monitor our compliance responsibilities on an ongoing basis.

HomeStart's board is responsible for ensuring 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.

Executive 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.

4.2.10 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 100.

The following internal audit functions in 2010-11 were outsourced to Ernst & Young:

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

4.2.11 Board members

Current board members (left to right): Jim, David, Estelle, Claude, Lindsay, Sandra, Sue

Member	Board attendance	
	Eligible to Attend	Meetings Attended
C Long	11	11
J Kouts	11	10
E Bowman	11	10
P Capaldo	6	6
S De Poi	11	10
L Nicholson	11	11
D Garrard	11	10
S Edwards	5	5

Member	Audit Committee attendance	
	Eligible to Attend	Meetings Attended
C Long	*	-
J Kouts	-	-
E Bowman	-	-
P Capaldo	3	3
S De Poi	-	-
L Nicholson	6	6
D Garrard	6	6
S Edwards	3	3

Member	Asset and Liability Committee attendance	
	Eligible to Attend	Meetings Attended
C Long	*	-
J Kouts	11	10
E Bowman	11	10
P Capaldo	-	-
S De Poi	11	7
L Nicholson	-	-
D Garrard	-	-
S Edwards	-	-

*Claude Long may attend as an alternate member on these committees.

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.

JIM KOUTS – DEPUTY CHAIR
Appointed November 2005.

Mr Kouts is the Group Manager Corporate Affairs for IPR-GDF SUEZ Australia. He has broad commercial and governance experience across a range of industry and government sectors as a senior executive and strategist. He also is currently a strategic adviser to Adelaide Airport Limited and formerly a Director of the Electricity Supply Industry Planning Council. During the past year he also served as Deputy Chair of the Botanic Gardens of Adelaide.

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.

SANDRA DE POI
Appointed June 2005.

Ms De Poi is the founder and Director of De Poi Consulting Pty Ltd. She has more than 20 years experience in consulting with the business community and insurers in the areas of workers compensation (claims management and rehabilitation), industrial relations and occupational health and safety. Ms De Poi is a Director of the WorkCover Corporation and is a Fellow of the Australian Institute Of Company of Directors (FAICD).

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.

DAVID GARRARD
Appointed March 2008.

Mr Garrard is a Consultant and member of the J.P. Morgan Advisory Council. He is also a member of the Investment Advisory Board of The Salvation Army, an executive coach with Global Coaching Partnership and a member of the Compliance Committee of Vinva Investment Management. He has held various positions with J.P. Morgan both in Australia and the UK.

SUE EDWARDS
Appointed December 2010.

Ms Edwards is a Chartered Accountant and former Partner of Deloitte Touche Tohmatsu. She specialises in providing business advice, including strategy, finance and taxation and she also has experience in the management of financial institutions as a former treasury manager.

PAULA CAPALDO
Appointed December 2005 to December 2010.

Ms Capaldo is a Chartered Accountant and a Partner with Deloitte Touche Tohmatsu. She specialises in providing businesses and boards with advice regarding accounting, taxation, strategy, budgeting and finance. She has previously been a board member of Advantage SA (formerly SA Great), the Deloitte Foundation, the South Australian Museum, and Deputy President of the Australian Institute of Management – SA Board.

4.3 Statutory information

4.3.1 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 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 achievement of HomeStart's safety goals and targets.

HomeStart continues to apply performance standards and measures that meet the 'Safety and Wellbeing in the Public Sector 2010 – 2015' strategy which embeds the Premier's Zero Harm Vision.

4.3.2 Sustainable commitment

The HomeStart OHSW&IM system currently captures key elements of legislative compliance, and integrates health, safety and injury management as a core business value to achieve improved performance outcomes. The OHSW&IM system is currently being reviewed to ensure processes are up-to-date and continue to meet legislative requirements.

In addition to the above, linkages to other government departments provides HomeStart with access to:

- a dedicated hotline for managers, to ensure incidents and injuries are promptly reported, enabling rehabilitation and return-to-work support and early intervention initiatives; and
- online training opportunities.

Evidence to support sustainable commitment to Occupational Health, Safety & Welfare includes:

- continual promotion of flexible work practices access to annual Healthy Lifestyle Benefits
- focus on workplace goals and individual achievements including staff award programs to foster a culture of continuous learning
- cultural surveys
- regular Consultative Committee meetings to promote idea sharing and engage employees in decision making
- regular Occupational, Health, Safety & Welfare meetings.

4.3.3 Financial accountability

HomeStart had one (1) workplace injury claim for the year.

Expenditure for OHSW&IM for the year amounted to approximately $15 000 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.

HomeStart continues to support a preventative approach by purchasing equipment for areas of higher risk for those undertaking manual tasks.

4.3.4 Integrated risk management

The OHSW&IM Committee provides and reports on near misses, incidents, hazards, Occupational Health and Safety (OH&S) inductions and full ergonomic workstation assessments. Any issues arising are considered further to ensure appropriate processes are in place. Regular reporting identifies trends and assists in implementing appropriate corrective treatment plans.

In addition to the above, regular risk and hazard management inspections continue to be developed and conducted, and any hazards assessed accordingly and corrected as soon as possible.

The current OHSW&IM system requires managers and staff to capture and apply risk management principles to respond to emerging trends or potential risk at the operational level.

4.3.5 Rigorous evaluation

Workplace inspections, incident reporting, preventative maintenance and correction actions are regularly applied to improve OHSW&IM performance.

Regular learning and development opportunities are available for managers to ensure they are kept informed of changing needs, and participant evaluation is undertaken to assess and improve training content, suitability and effectiveness.

OHSW&IM 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

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

AGENCY GROSS WORKERS COMPENSATION EXPENDITURE FOR 2010-11 COMPARED WITH 2009-10

Expenditure	2010-11	2009-10	Variation + (-)	% Change + (-)
Income maintenance	$203.21	$0	$203.21	n/m*
Lump sum settlements redemptions – Sect. 42	$0	$0	$0	-
Lump sum settlements permanent disability – Sect. 43	$0	$0	$0	-
Medical/hospital costs combined	$1784.63	$0	$1784.63	n/m*
Other	$0	$0	$0	0%
Total claims expenditure	$1987.84	$0	$1987.84	n/m*

*n/m – the percentage change is not meaningful due to a zero base.

MEETING SAFETY PERFORMANCE TARGETS 2010-2015 TARGETS REPORTS AS AT 30 JUNE 2011

	Base: 2009-10	Performance: 12 months to end of June 2011*			Final target
	Numbers or %	Actual	Notional quarterly target**	Variation	Numbers or %
1. Workplace fatalities	0	0	0	0	0
2. New workplace injury claims	0	1	0	1	0
3. New workplace injury claims frequency rate	0.00	0	0	0	0.00
4. Lost time injury frequency rate***	0.00	0	0	0	0.00
5. New psychological injury claims	0.00	0	0	0	0.00
6. Rehabilitation and return to work:					
6a. Early assessment within 2 days	0%	0.00%	80%	0	0
6b. Early intervention within 5 days	0	0	0	0	0
6c. Days lost ‹ 10 days	0	100%	60%	0	0
7. Claim determination:					
7a. Claims determined for provisional in 7 calendar days	100%	1	75%	+ 100%	75% or more
7b. Claims to be determined in 10 business days	0%	100%	75%	0	0
7c. Claims still to be determined after 3 months	0	0	3%	0	0
8. Income maintenance payments for recent injuries:					
8a. 2009-10 injuries (at 24 months development)	$0.00	$0.00	$0.00	$203.21	0
8b. 2010-11 injuries (at 12 months development)	$0.00	$203.21	$0.00	$0.00	0

* Except for Target 8, which is year-to-date (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.

4.3.6 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) and other finance programs to support community housing and aged care accommodation.

4.3.6.1 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 Privacy Policy
- HomeStart Annual Report
- HomeStart customer newsletters.

Copies of the above documents can be accessed from homestart.com.au or by contacting the Freedom of Information Officer by telephone on 8203 4000. Copies of HomeStart's Information Statement can be obtained by contacting the Freedom of Information Officer during normal business hours.

4.3.6.2 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.

4.3.6.3 *WHISTLEBLOWERS PROTECTION ACT 1993*

No public interest information has been disclosed to a responsible officer of HomeStart Finance under the *Whistleblowers Protection Act 1993*.

4.3.6.4 CONTRACTUAL ARRANGEMENTS

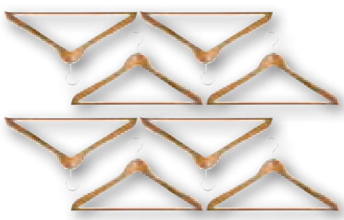
HomeStart has not entered into any contracts with a value greater than $4 million.

4.3.6.5 OVERSEAS TRAVEL

No HomeStart staff member made an overseas trip during 2010-11.

CONSULTANCY EXPENDITURE 2010-11

Consultancies below $10 000		**Cost**
3		
Total consultancies below $10 000		**$16 318**
Consultancies $10 000 – $50 000	**Purpose**	**Cost**
Mercer	Human resources evaluations and advice	
Morton Phillips	Staff position description reviews	
Total consultancies $10 000 – $50 000		**$46 014**
Consultancies above $50 000	**Purpose**	**Cost**
Ernst & Young	Payroll, fringe benefits tax and lending calculator advice	
Total consultancies above $50 000		**$57 269**



Financial Statements

Certification of the Financial Statements

For the year ended 30 June 2011

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

- comply with relevant Treasurer's instructions issued under section 41 of the *Public Finance and Audit Act 1987*, and relevant Australian accounting standards
- are in accordance with the accounts and records of HomeStart Finance; and
- present a true and fair view of the financial position of HomeStart Finance as at 30 June 2011 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 statements 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
20 September 2011

Jim Kouts
DEPUTY CHAIR
20 September 2011

John Oliver
CHIEF EXECUTIVE OFFICER
15 September 2011

John Comley
GENERAL MANAGER, CORPORATE SERVICES
AND CHIEF FINANCIAL OFFICER
20 September 2011

Statement of Comprehensive Income

For the year ended 30 June 2011

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

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

	Note No.	2011 $'000	2010 $'000
Interest income	5	134 435	102 624
Interest expense	5	(85 312)	(66 779)
Net interest income	**5**	**49 123**	**35 845**
Other income	6	14 798	15 765
Net gain/(loss) from disposal of assets	7	(5)	-
Bad and impaired loans expense	8	(885)	(1 552)
Loan manager fees		(6 711)	(6 233)
Employee expenses	10	(9 768)	(9 764)
Depreciation and amortisation expense	14	(641)	(705)
Other expenses	15	(5 413)	(5 632)
Profit before income tax equivalents and guarantee fee expenses		40 498	27 724
Government guarantee fee	9	(24 976)	(10 947)
Profit before income tax equivalents		**15 522**	**16 777**
Income tax equivalents expense	2.5	(4 657)	(5 033)
Profit after income tax equivalents expense		**10 865**	**11 744**
Derivative gain recognised directly in equity		**3 179**	**4 384**
Total comprehensive result		**14 044**	**16 128**

Statement of Financial Position

As at 30 June 2011

Total equity is attributable to the state government as owner.

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

	Note No.	2011 $'000	2010 $'000
Assets			
Cash and cash equivalents	35.1	3 807	2 145
Financial investments designated at fair value through profit or loss	17	101 674	81 266
Financial investments – held-to-maturity	18	12 103	20 011
Loans and advances	19	1 817 393	1 649 910
Other financial assets	20	884	4 502
Property, plant and equipment	21	1 428	1 625
Intangible assets	22	283	481
Other assets	23	373	335
Total assets		**1 937 945**	**1 760 275**
Liabilities			
Payables	24	8 193	6 241
Derivative financial instruments	31.2.2	3 189	6 369
Short-term borrowings	25	95 800	721 934
Employee benefits	26	1 492	1 432
Income tax equivalents payable	27	3 006	3 014
Provision for dividend	28	203	-
Other liabilities	29	3 184	3 234
Long-term borrowings	25	1 665 000	863 000
Total liabilities		**1 780 067**	**1 605 224**
Net assets		**157 878**	**155 051**
Equity			
Reserves	30	5 614	4 681
Retained earnings	30	152 264	150 370
Total equity		**157 878**	**155 051**

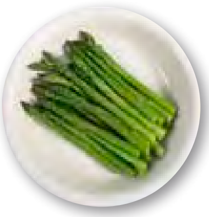
Statement of Changes in Equity

For the year ended 30 June 2011

Total equity is attributable to the state government as owner.

The below 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
Balance at 30 June 2009		**138 457**	**11 219**	**(10 753)**	**138 923**
Profit after income tax equivalents expense for 2009-10		11 744	-	-	11 744
Derivative gain recognised directly in equity		-	-	4 384	4 384
Total comprehensive result for 2009-10		**11 744**	**-**	**4 384**	**16 128**
Transfer to/from credit loss reserve		169	(169)	-	-
Transactions with state government as owner					
Dividends paid/payable		-	-	-	-
Balance at 30 June 2010		**150 370**	**11 050**	**(6 369)**	**155 051**
Profit after income tax equivalents expense for 2010-11		10 865	-	-	10 865
Derivative gain recognised directly in equity		-	-	3 179	3 179
Total comprehensive result for 2010-11		**10 865**	**-**	**3 179**	**14 044**
Transfer to/from credit loss reserve		2 246	(2 246)	-	-
Transactions with state government as owner					
Dividends paid/payable		(11 217)	-	-	**(11 217)**
Balance at 30 June 2011		**152 264**	**8 804**	**(3 190)**	**157 878**



Statement of Cash Flows

For the year ended 30 June 2011

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

Cash flows from operating activities	**Note No.**	**2011 $'000**	**2010 $'000**
Cash inflows			
Interest received on:			
- Cash		79	58
- Investments		709	679
- Loans and advances		132 040	100 992
Fees and commissions received		978	1 280
Bad debts recovered		272	110
EquityStart grant received		650	2 770
Community Service Obligation subsidy received		4 475	4 191
Other		2 187	858
Total cash inflows from operating activities		**141 390**	**110 938**
Cash outflows			
Payments to employees		(9 924)	(9 252)
Payments to suppliers		(5 331)	(5 159)
Payments to loan managers		(6 622)	(6 774)
Borrowing costs paid		(84 432)	(65 636)
Government guarantee fee paid		(23 795)	(10 654)
Income tax equivalents paid		(4 665)	(3 393)
Total cash outflows from operating activities		**(134 769)**	**(100 868)**
Net cash provided by operating activities	35.2	**6 621**	**10 070**

Cash flows from investing activities	Note No.	2011 $'000	2010 $'000
Cash inflows			
Proceeds from sale of office and computer equipment	7	12	-
Proceeds from sale of investments designated at fair value through profit or loss		-	13 706
Proceeds from maturity of held to maturity investments		8 260	-
Shared appreciation components of Breakthrough Loan repaid	32.4	4 049	2 963
Customer loans repaid		193 946	204 156
Total cash inflows from investing activities		**206 267**	**220 825**
Cash outflows			
Payments for property, plant and equipment		(312)	(136)
Payments for software		-	(391)
Payments for held-to-maturity investments		-	(9 901)
Payments for investments designated at fair value through profit or loss		(9 621)	(6 654)
Shared appreciation component of Breakthrough Loan settled	32.4	(12 134)	(18 272)
Customer loans settled		(357 696)	(473 815)
Total cash outflows from investing activities		**(379 763)**	**(509 169)**
Net cash used in investing activities		**(173 496)**	**(288 344)**

Cash flows from financing activities	Note No.	2011 $'000	2010 $'000
Cash inflows			
Proceeds from borrowings		1 455 000	1 488 000
Total cash inflows from financing activities		**1 455 000**	**1 488 000**
Cash outflows			
Dividend paid		(7 329)	(1 943)
Stakeholder advance	20	-	(3 686)
Repayment of borrowings		(1 279 134)	(1 206 070)
Total cash outflows from financing activities		**(1 286 463)**	**(1 211 699)**
Net cash provided by financing activities		**168 537**	**276 301**
Net (decrease)/increase in cash and cash equivalents		**1 662**	**(1 975)**
Cash and cash equivalents at the beginning of the financial year		2 145	4 120
Cash and cash equivalents at the end of the financial year	35.1	**3 807**	**2 145**

Notes to and forming part of the Financial Statements

For the year ended 30 June 2011

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*. It reports to the Minister for Housing.

HomeStart's vision is to make home ownership achievable for more South Australians.

HomeStart Home Loan

HomeStart provides home loans to 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 2011 was $1768.9 million ($1601.1 million, 2009-10).

Subsidies

HomeStart provides subsidised Advantage Loans of up to $30 615 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 2011 the interest rate applying to Advantage Loans was 2.20% (2.99%, 2009-10). The outstanding value of Advantage Loans at 30 June 2011 was $43.1 million ($41.7 million, 2009-10).

For the year ended 30 June 2011 HomeStart received a Community Service Obligation (CSO) subsidy payment of $2.51 million ($2.24 million, 2009-10) 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. The EquityStart Loan incurs interest at a subsidised rate, which is linked to the CPI. 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 2011 was $40.3 million ($40.6 million, 2009-10).

HomeStart received grant funding from the Department for Families and Communities, to compensate HomeStart for costs incurred in relation to EquityStart Loans.

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

Funding

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

NOTE 2
Summary of significant accounting policies

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

2.1 Basis of preparation

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.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

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

2.1.1 Changes in accounting policies

The preparation of HomeStart's financial statements requires compliance with accounting policy statements issued pursuant to section 41 of the *Public Finance and Audit Act 1987 (PFAA)*. In accordance with the revised Accounting Policy Framework II *General Purpose Financial Statements Framework*, HomeStart has changed its accounting policy and now discloses the number of employees whose normal remuneration is equal to or greater than the base executive remuneration level (within $10 000 bandwidths) and the aggregate of the remuneration paid or payable or otherwise made available, directly or indirectly by HomeStart to those employees. Please refer to note 10 for additional information.

Except for the amending standard AASB 2009-12, 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 2011. HomeStart has assessed the impact of the new and amended standards and interpretations and except for AASB 9 *Financial Instruments* considers there will not be a material impact on the accounting policies or the financial statements of HomeStart. AASB 9 becomes mandatory for HomeStart's financial statements for the year ended 30 June 2014 and could change the classification and measurement of financial assets. The extent of the impact has not been determined.

2.1.2 Estimates and assumptions

The preparation of financial statements 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

These financial statements are general purpose financial statements. 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)*.

Except for the amending standard AASB 2009-12, 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 2011.

2.3 Comparative figures

The presentation and classification of items in the financial statements 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%, 2009-10) 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.

2.6.1 Interest income – non-subsidised loans

Interest income is recognised as it accrues using the effective interest rate method, 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 lower 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.

The Department of Treasury and Finance makes 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 costs incurred in relation to EquityStart Loans.

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.

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, bank bills 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 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.

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 2011 HomeStart held bank bills as well as 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.

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 2011 HomeStart held investment bonds with a face value of $12.0 million ($12.1 million, 2009-10) 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 de-recognised or impaired.

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 operate under identical terms to HomeStart's current standard loan product. 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; and
- 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 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.

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 (refer to 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.

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 or 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 for current and comparative period is determined as follows:

Class of asset	Depreciation method	Useful life (years)
Leasehold improvements	Straight line	10
Other office and computer equipment	Straight line	2-10
Intangible assets	Straight line	4

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 5.0 years (5.5 years, 2009-10) 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 twelve 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 are measured as the amount unpaid at the reporting date at remuneration rates current at the reporting date. The annual leave liability is expected to be payable within twelve 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 twelve 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.

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 statements requires the use of certain accounting estimates and requires HomeStart to exercise its judgement in the process of applying HomeStart's accounting policies.

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 hereafter. References to relevant notes within the financial statements are also provided.

Area of estimate and judgement	Note references
Investments at fair value through profit or loss (excluding the shared appreciation component of Breakthrough Loans)	2.12, 32.2(c), 32.3
Investments at fair value through profit or loss – shared appreciation component of the Breakthrough Loan	2.12, 32.2(d), 32.3
Fair value of subsidised loans and advances	2.6.2
Deferred loan fee income	2.6.4
Deferred loan fee expense	2.7.4
Provision for impairment of loans and advances	2.11
Unearned income (EquityStart grant)	2.6.5
General reserve for credit losses	2.11, 30
Derivative financial instruments	2.13, 32.2(a)

NOTE 3
Government/non-government disclosures

In accordance with Accounting Policy Framework II *General Purpose Financial Statements Framework*, Accounting Policy Statement 4.1 *Explanatory Notes*, 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.

NOTE 5
Net interest income

Interest received/receivable from entities external to the state government	2011 $'000	2010 $'000
Loans and advances	129 554	99 313
Subsidised loans effective interest income	3 935	3 798
Subsidised loans fair value expense	(1 812)	(3 299)
Loan origination income amortisation	2 680	2 749
Deposits with banks	78	63
Total interest received/receivable from entities external to the state government	**134 435**	**102 624**
Interest paid/payable to entities within the state government		
Borrowings from SAFA	(85 312)	(66 779)
Total interest paid/payable to entities within the state government	**(85 312)**	**(66 779)**
Net interest income	**49 123**	**35 845**

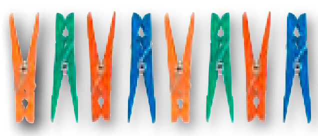
NOTE 6
Other income

Other income received/receivable from entities external to the state government	2011 $'000	2010 $'000
Fees and charges	3 577	3 821
Bad debts recovered	272	195
Unrealised change in fair value of loans	1 349	2 670
Realised change in fair value of loans	570	419
Managed funds distribution	472	243
Unrealised change in fair value of investments	31	104
Realised change in fair value of investments	388	20
Interest received from held-to-maturity investments	679	589
Other	68	52
Total other income received/receivable from entities external to the state government	**7 406**	**8 113**

Other income received/receivable from entities within the state government	2011 $'000	2010 $'000
Managed funds distribution	849	834
EquityStart grant	1 679	2 347
Community Service Obligation (CSO) subsidy	4 475	4 191
Other	389	280
Total other income received/receivable from entities within the state government	**7 392**	**7 652**
Total other income	**14 798**	**15 765**

EQUITYSTART GRANT FUNDS AND CSO SUBSIDY RECEIVED

During the financial year, HomeStart received $0.6 million ($2.77 million, 2009-10) in grant funds from the Department for Families and Communities, to compensate HomeStart for costs incurred in relation to EquityStart Loans.



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

	2011 $'000	2010 $'000
Proceeds from disposal of assets	12	-
Net book value of assets disposed	(17)	-
Total net gain/(loss) from disposal of assets	**(5)**	**-**

NOTE 8
Bad and impaired loans expense

	2011 $'000	2010 $'000
Bad and impaired loans expensed	127	40
Increase in provision for impairment	758	1 512
Total bad and impaired loans expense	**885**	**1 552**

NOTE 9
Government guarantee fee

	2011 $'000	2010 $'000
Government guarantee fee paid or payable to entity within the state government	24 976	10 947
Total government guarantee fee paid to entity within the state government	**24 976**	**10 947**

HomeStart paid a guarantee fee of 1.5% of outstanding borrowings to the Department of Treasury and Finance in 2010-11 (0.75%, 2009-10).

The Treasurer has approved a guarantee fee rate of 1.5% for the financial year ended 30 June 2012.

NOTE 10
Employee expenses, remuneration and number of employees

	2011 $'000	2010 $'000
Salaries and wages	8 272	7 860
Long service leave	(17)	238
Annual leave	49	65
Employment on-costs – superannuation	712	729
Employment on-costs – other	487	607
Board fees	265	265
Total employee expenses	**9 768**	**9 764**

Remuneration of employees	2011 No.	2010 No.
The number of employees whose remuneration received or receivable falls within the following bands:		
$127 500 to $130 699[1]	1	2
$130 700 to $140 699	1	2
$140 700 to $150 699	2	2
$160 700 to $170 699	1	1
$180 700 to $190 699	-	1
$220 700 to $230 699	1	1
$230 700 to $240 699	-	1
$240 700 to $250 699	3	2
$300 700 to $310 699	1	-
Total number of employees	**10**	**12**

[1] This band has been included for the purposes of reporting comparative figures based on the executive base level remuneration rate for 2009-10.

The table includes all employees who received remuneration equal to or greater than the base executive remuneration level during the year. Remuneration of employees reflects all costs of employment including salaries and wages, superannuation contributions, payments in lieu of leave, fringe benefits tax and any other salary sacrifice benefits. The total remuneration received by these employees for the year was $1.98 million ($2.14 million, 2009-10).

ACCOUNTING POLICY CHANGE

In accordance with the revised Accounting Policy Framework II *General Purpose Financial Statements Framework*, HomeStart has changed its accounting policy and now discloses all employees who receive remuneration equal to or greater than the base executive remuneration level rather than all employees who receive remuneration equal to or greater than $100 000. The impact of this change in accounting policy is the number of employees disclosed has reduced by 23 (from 33 to 10) for 2011 and 17 (from 29 to 12) for 2010.

NUMBER OF EMPLOYEES

HomeStart employed 103 people at the end of the reporting period (106, 2009-10).

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:

- John Oliver (Chief Executive Officer)
- John Comley (General Manager Corporate Services and Chief Financial Officer)
- Ian Wheaton (General Manager Treasury and Risk)
- John Rolfe (General Manager Retail).

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

- Andrew Mills (Acting General Manager People and Strategy) from the start of the financial year until 1 November 2010
- Deborah Dickson (General Manager People and Strategy) from 2 November 2010 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:

	2011 $'000	2010 $'000
Short-term employee benefits	1 240 572	1 307 273
Long-term employee benefits (long service leave)	14 215	12 856
Long-term employee benefits (amounts paid to superannuation plans)	83 511	113 281
Termination benefits	-	50 841
Total key management personnel compensation	**1 338 298**	**1 484 251**

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 statements.

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
- Sandra De Poi
- David Garrard
- Lindsay Nicholson.

Paula Capaldo was a member of the Board of HomeStart from the start of the financial year until her term expired on 15 December 2010.

Sue Edwards was a member of the Board of HomeStart from her appointment on 15 December 2010 until the end of the financial year.

BOARD MEMBERS' REMUNERATION

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

	2011 $'000	2010 $'000
Short-term benefits (note 10)	264 680	264 680
Long-term employee benefits (amounts paid to superannuation plans)	23 821	23 821
Total board members' remuneration	**288 501**	**288 501**

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

	2011 No.	2010 No.
$20 000 – $29 999	2	-
$30 000 – $39 999	-	4
$40 000 – $49 999	5	2
$50 000 – $59 999	1	1
Total number of board members	**8**	**7**

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.

NOTE 14 Depreciation and amortisation expense

Depreciation	2011 No.	2010 No.
Other office and computer equipment	244	348
Total depreciation	**244**	**348**
Amortisation		
Leasehold improvements	199	199
Intangible assets	198	158
Total amortisation	**397**	**357**
Total depreciation and amortisation	**641**	**705**

NOTE 15
Other expenses

	2011 $'000	2010 $'000
Other expenses arising from transactions with entities within the state government		
External auditor's remuneration	151	144
Insurance	82	69
Total other expenses arising from transactions with entities within the state government	**233**	**213**
Other expenses arising from transactions with entities external to the state government		
Realised change in fair value of investments	-	423
Office accommodation (minimum lease payments)	797	769
Marketing, product development and advertising	994	1 108
Internal audit fees	326	314
Loan administration	157	150
Information technology	515	399
Consultants' fees	120	102
Human resources and staff development	578	490
Other	1 693	1 664
Total other expenses arising from transactions with entities external to the state government	**5 180**	**5 419**
Total other expenses	**5 413**	**5 632**

	No.	2011 $'000	No.	2010 $'000
The number and dollar amount of consultancies paid/payable that fell within the following bands:				
Below $10 000	3	16	7	35
Between $10 000 and $50 000	2	46	3	67
Above $50 000	1	58	-	-
Total paid/payable to the consultants engaged	**6**	**120**	**10**	**102**

NOTE 16
Auditor's remuneration

	2011 $'000	2010 $'000
Audit fees paid/payable to the Auditor-General's Department	151	144
Total audit fees – state government entities	**151**	**144**

The amounts disclosed above are inclusive of GST.

OTHER SERVICES

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

NOTE 17
Financial investments designated at fair value through profit or loss

17.1 Financial investments designated at fair value through profit or loss

	2011 $'000	2010 $'000
Financial investments designated at fair value through profit or loss with entity within the state government		
SAFA Cash Management Fund	24 944	18 774
Total financial investments designated at fair value through profit or loss with entity within the state government	**24 944**	**18 774**
Financial investments at fair value through profit or loss with entities external to the state government		
Unit Trusts	9 014	4 211
Breakthrough Loan (shared appreciation component)	67 716	58 281
Total financial investments designated at fair value through profit or loss with entities external to the state government	**76 730**	**62 492**
Total financial investments designated at fair value through profit or loss	**101 674**	**81 266**

17.2 Maturity profile of HomeStart's financial investments designated at fair value through profit or loss

	2011 $'000	2010 $'000
At call	33 958	22 985
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	-	-
Longer than 5 years	67 716	58 281
Total investments designated at fair value through profit or loss	**101 674**	**81 266**

17.3 Risk exposure

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

NOTE 18 Financial investments – held-to-maturity

18.1 Financial investments – held-to-maturity

	2011 $'000	2010 $'000
Financial investments – held-to-maturity with entities external to the state government		
Bank bills	-	7 956
Bonds	12 103	12 055
Total financial investments – held-to-maturity	**12 103**	**20 011**

18.2 Maturity profile of HomeStart's financial investments – held-to-maturity

	2011 $'000	2010 $'000
At call	-	-
Not longer than 3 months	-	7 956
Longer than 3 months and not longer than 12 months	1 003	4 050
Longer than 12 months and not longer than 5 years	7 053	4 965
Longer than 5 years	4 047	3 040
Total financial investments – held-to-maturity	**12 103**	**20 011**

18.3 Risk exposure

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

NOTE 19
Loans and advances

19.1 Loans and advances

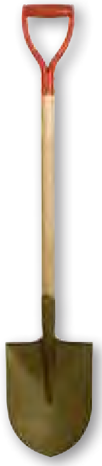
	2011 $'000	2010 $'000
Primary loans	1 769 628	1 603 718
Subsidised loans	84 940	82 625
Gross loans and advances	**1 854 568**	**1 686 343**
Fair value adjustment	(16 180)	(16 241)
Deferred loan fee income	(5 898)	(5 925)
Deferred loan fee expense	3 033	3 091
Specific provisions for impairment	(5 750)	(6 006)
Unearned income	(2 472)	(2 001)
Collective provision for impairment	(9 908)	(9 351)
Net loans and advances	**1 817 393**	**1 649 910**
Specific provision for impaired loans		
Opening balance	6 006	4 236
Bad debts written-off	(457)	(137)
Impairment expense	201	1 907
Closing balance	**5 750**	**6 006**
Collective impairment provision		
Opening balance	9 351	9 746
Impairment expense	557	(395)
Closing balance	**9 908**	**9 351**
Total provision for impairment	**15 658**	**15 357**

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.

NOTE 20
Other financial assets

	2011 $'000	2010 $'000
Other financial assets – entities within the state government		
Stakeholder advance	-	3 686
Accrued financial investment income	68	69
EquityStart grant receivable	170	157
Other	66	62
Total other financial assets – entities within the state government	**304**	**3 974**
Other financial assets – entities external to the state government		
Deferred financial investment income	136	129
Accrued interest on housing loans and advances	384	336
Accrued interest on cash at bank	6	7
GST recoverable	48	47
Other	6	9
Total other financial assets – entities external to the state government	**580**	**528**
Total other financial assets	**884**	**4 502**



NOTE 21
Property, plant and equipment

	2011 $'000	2010 $'000
Leasehold improvements		
Leasehold improvements at cost	2 154	2 111
Accumulated depreciation	(1 186)	(987)
Total leasehold improvements	**968**	**1 124**
Other office and computer equipment		
Other office and computer equipment at cost	2 978	3 023
Accumulated depreciation	(2 518)	(2 522)
Total other office and computer equipment	**460**	**501**
Total property, plant and equipment	**1 428**	**1 625**

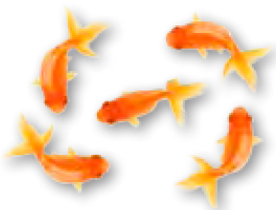
	Leasehold improvements $'000	Other office and computer equipment $'000	Total $'000
Carrying amount at 30 June 2009	**1 267**	**720**	**1 987**
Additions	56	129	185
Disposals – at cost	-	-	-
Disposals – accumulated depreciation	-	-	-
Depreciation and amortisation	(199)	(348)	(547)
Carrying amount at 30 June 2010	**1 124**	**501**	**1 625**
Additions	43	220	263
Disposals – at cost	-	(265)	(265)
Disposals – accumulated depreciation	-	248	248
Depreciation and amortisation	(199)	(244)	(443)
Carrying amount at 30 June 2011	**968**	**460**	**1 428**

NOTE 22
Intangible assets

	2011 $'000	2010 $'000
Software at cost	1 451	1 451
Accumulated amortisation	(1 168)	(970)
Total software	**283**	**481**
Carrying amount at 1 July	**481**	**248**
Additions	-	391
Disposals	-	-
Amortisation	(198)	(158)
Carrying amount at 30 June	**283**	**481**

NOTE 23
Other assets

	2011 $'000	2010 $'000
Other assets – entities within the state government		
Prepayments	4	8
Total other assets – entities within the state government	**4**	**8**
Other assets – entities external to the state government		
Prepayments	369	327
Total other assets – entities external to the state government	**369**	**327**
Total other assets	**373**	**335**



NOTE 24
Payables

24.1 Payables

	2011 $'000	2010 $'000
Payables to entities within the state government		
Creditors	5	6
Accrued administration expenses	160	153
Employment on-costs	426	439
Accrued interest payable on borrowings	4 525	3 581
Accrued interest payable on derivatives	131	195
Accrued guarantee fee payable	2 148	967
Total payables to entities within the state government	**7 395**	**5 341**
Payables to entities external to the state government		
Creditors	212	314
Creditors – capital acquisition	-	49
Accrued administration expenses	103	84
Accrued loan manager fees	483	453
Total payables to entities external to the state government	**798**	**900**
Total payables	**8 193**	**6 241**

24.2 Settlement profile of HomeStart's payables

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

NOTE 25
Borrowings

25.1 Interest bearing liabilities

	2011 $'000	2010 $'000
Short-term borrowings payable to entity within the state government		
Short-term borrowings	95 800	721 934
Total short-term borrowings payable to entity within the state government	**95 800**	**721 934**
Long-term borrowings payable to entity within the state government		
Long-term borrowings	1 665 000	863 000
Total long-term borrowings payable to entity within the state government	**1 665 000**	**863 000**
Total interest bearing liabilities	**1 760 800**	**1 584 934**

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.

NOTE 26
Employee benefits

26.1 Employee benefits

	2011 $'000	2010 $'000
Accrued salaries	57	29
Annual leave	599	551
Long service leave	836	852
Total employee benefits	**1 492**	**1 432**

26.2 Aggregate employee benefits

	2011 $'000	2010 $'000
Accrued salaries		
On-costs	61	78
Provision for employee benefits	57	29
Total accrued salaries	**118**	**107**
Annual leave		
On-costs	84	77
Provision for employee benefits	599	551
Total annual leave	**683**	**628**
Long service leave		
On-costs	116	119
Provision for employee benefits	836	852
Total long service leave	**952**	**971**
Total employment on-costs (note 24)	426	439
Less: On-costs not related to current employee benefits	(165)	(165)
Total provision for employee benefits	1 492	1 432
Total employee benefits and related on-costs	**1 753**	**1 706**

26.3 Settlement period of long service leave

The liability for long service leave is recognised after an employee has completed 5.0 years (5.5 years, 2009-10) 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 twelve months after the reporting date.

NOTE 27
Income tax equivalents payable

	2011 $'000	2010 $'000
Income tax equivalents payable to entity within the state government	3 006	3 014
Total tax equivalents liability payable to entity within the state government	**3 006**	**3 014**

NOTE 28
Provision for dividend

	2011 $'000	2010 $'000
Dividend payable to entity within the state government	203	-
Total dividend payable to entity within the state government	**203**	**-**

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 Minister may, in consultation with the Treasurer, by notice to HomeStart approve its recommendation or determine that another dividend, or no dividend, should be paid.

For the financial year ended 30 June 2011, the Board of HomeStart recommended the payment of a dividend of 60% of after tax profit (40%, 2009-10). This amounts to a total dividend of $6 519 395 in respect of the year ended 30 June 2011. The Minister and Treasurer approved this recommendation in June 2011.

HomeStart paid a dividend amount of $6 316 800 to the Department of Treasury and Finance prior to the end of the financial year. This amount is disclosed as a dividend paid/payable. HomeStart will be required to pay a further dividend amount of $202 595 in respect of the financial year ended 30 June 2011.

NOTE 29
Other liabilities

29.1 Other liabilities

	2011 $'000	2010 $'000
Other liabilities payable to or arising from transactions with entities within the state government		
Aboriginal loan security deposit	127	169
Department of Human Services (DHS)	324	-
Unearned income (EquityStart grant)	1 422	2 438
Total other liabilities payable to or arising from transactions with entities within the state government	**1 873**	**2 607**
Other liabilities payable to or arising from transactions with entities external to the state government		
Workers compensation provision	15	17
Wyatt Benevolent Institution	1 105	401
Make good provision	187	209
City of Salisbury	4	-
Total other liabilities payable to or arising from transactions with entities external to the state government	**1 311**	**627**
Total other liabilities	**3 184**	**3 234**

29.2 Make good provision

	2011 $'000	2010 $'000
Opening balance	**209**	**191**
Unwinding of discount arising from the passage of time	(22)	18
Closing balance	**187**	**209**

NOTE 30
Equity

GENERAL RESERVE FOR CREDIT LOSSES

A general reserve for credit losses was created 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.

DERIVATIVES VALUATION RESERVE

The derivatives valuation reserve was created 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; and
- 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 overleaf, HomeStart manages its credit risk by dealing with credit worthy 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.

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 credit worthiness 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's 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 annual property data or a current formal valuation. As at year-end the fair value of collateral for past due and impaired loans was:

	2011 $'000	2010 $'000
Past due but not impaired		
Gross carrying value	109 895	95 758
Fair value of collateral	182 565	163 905
Impaired		
Gross carrying value, before specific impairment provisions	32 336	29 647
Specific provision for impairment	(5 750)	(6 006)
Net impaired loans and advances	26 586	23 641
Fair value of collateral	33 908	32 161

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 31% (32% 2009-10) of HomeStart's loans by value are 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 30% (32% 2009-10) 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 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.

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 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.

	2011 $'000	2010 $'000
Expected losses used for internal operational management	18 838	18 641
Provision for impairment in the financial statements	(15 658)	(15 357)
Unearned income	(2 472)	(2 001)
Difference	**708**	**1 283**

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 $1817.39 million ($1649.91 million 2009-10).

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.

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

	2011 $'000	2010 $'000
Not impaired		
Neither renegotiated nor past due		
Low risk	1 185 843	917 597
Moderate risk	493 379	591 143
High risk	23 203	40 285
Gross loans and advances neither renegotiated nor past due	**1 702 425**	**1 549 025**
Renegotiated (1)		
Low risk	5 824	6 147
Moderate risk	3 487	4 396
High risk	676	1 369
Gross loans and advances renegotiated	**9 987**	**11 912**
Past due but not impaired (2)		
Low risk	34 890	28 749
Moderate risk	53 248	46 830
High risk	21 757	20 179
Gross loans and advances past due but not impaired	**109 895**	**95 758**
Total not impaired		
Low risk	1 226 557	952 493
Moderate risk	550 114	642 369
High risk	45 636	61 833
Gross loans and advances not impaired	**1 822 307**	**1 656 695**
Impaired (3)		
Low risk	4 242	4 086
Moderate risk	15 539	13 483
High risk	12 480	12 078
Gross impaired loans and advances	*32 261*	*29 647*
Specific provision for impairment	(5 750)	(6 006)
Impaired loans and advances after provisions	**26 511**	**23 641**
Total		
Low risk	1 230 799	956 580
Moderate risk	565 653	655 852
High risk	58 116	73 911
Gross loans and advances	*1 854 568*	*1 686 343*
Fair value adjustment	(16 180)	(16 241)
Deferred loan fee income	(5 898)	(5 925)
Deferred loan fee expense	3 033	3 091
Specific provision for impairment	(5 750)	(6 006)
Unearned income	(2 472)	(2 001)
Collective provision for impairment	(9 908)	(9 351)
Net loans and advances	**1 817 393**	**1 649 910**

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

	2011 $'000	2010 $'000
<30 days	78 180	71 157
30 – 59 days	21 357	16 989
60 – 89 days	5 526	3 921
90 – 179 days	2 763	2 010
>179 days	2 069	1 681
Total	**109 895**	**95 758**

(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 $10.0 million as at 30 June 2011 ($11.9 million 2009-10).

(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 liabilities

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

HomeStart is permitted by the Treasurer to transact in derivatives only with SAFA.

(b) Maximum exposure to credit risk

As at 30 June 2011 and 30 June 2010, HomeStart did not have any exposure to credit risk arising from derivative financial liabilities.

	2011 $'000	2010 $'000
Derivative financial instruments	(3 189)	(6 369)
Swap income receivable	517	532
Swap expense payable	(648)	(727)
Net payable (note 24)	(131)	(195)

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

31.3.2 Funding approach

HomeStart is required 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 $1900 million as at 30 June 2011 ($1750 million 2009-10).

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 twelve month period is to be limited to 50% (50%, 2009-10) of total debt outstanding.

% of debt subject to refinancing in the next 12 month period	2011 $'000	2010 $'000
At 30 June	5.44%	45.55%
Average for the period	25.93%	31.99%
Maximum for the period	47.77%	45.55%
Minimum for the period	3.43%	21.66%

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

2011	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
Liabilities							
Payables	5 845	2 348	-	-	-	8 193	**8 193**
Borrowings	99 995	13 879	63 109	1 426 305	508 693	2 111 981	**1 760 800**
Other financial liabilities	-	1 503	1 706	-	-	3 209	**3 209**
Total liabilities (contractual maturity dates)	105 840	17 730	64 815	1 426 305	508 693	2 123 383	**1 772 202**

2010	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
Liabilities							
Payables	5 109	1 132	-	-	-	6 241	**6 241**
Borrowings	157 344	11 553	623 834	1 005 631	-	1 798 362	**1 584 934**
Other financial liabilities	-	1 507	1 507	-	-	3 014	**3 014**
Total liabilities (contractual maturity dates)	162 453	14 192	625 341	1 005 631	-	1 807 617	**1 594 189**

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.

(b) Derivative cash flows

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

The table below 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.

	Up to 1 month $'000	1-3 months $'000	3-12 months $'000	1-5 years $'000	Over 5 years $'000	Total $'000
2011	(237)	(385)	(1 225)	(1 436)	255	(3 028)
2010	(361)	(592)	(2 512)	(3 502)	39	(6 928)

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.

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 2011, HomeStart had floating/fixed swaps with a notional value of $266.0 million ($294.5 million, 2009-10) with fixed rates varying between 3.88% and 7.83% (3.73% and 7.85%, 2009-10).

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 to 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 buckets 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 2011 and 30 June 2010.

	2011 $'000	2010 $'000
Limit	+/-10	+/-10
Average for the period	(0.7)	1.4
Maximum for the period	1.6	2.9
Minimum for the period	(2.3)	(4.9)

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.

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 ten 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 2011 and 30 June 2010:

	2011 $'000	2010 $'000
Maximum loss limit	1 100	1 100
Average for the period	220	206
Maximum for the period	323	450
Minimum for the period	170	60

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 2011 and 30 June 2010.

	2011 $'000	2010 $'000
Maximum loss limit	2 500	2 500
Average for the period	513	487
Maximum for the period	269	1 257
Minimum for the period	722	209

(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 2011, a $3.18 million gain ($4.38 million gain, 2009-10) was recognised in equity during the period.

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

31.4.3 Investments price risk

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 and Risk department and monthly by the board and ALCO.

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).

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.

2011	**Carrying amount $'000**	**-10%**	**+10%**
Unit Trusts	9 014	(901)	901
SAFA Cash Management Fund	24 944	(2 494)	2 494
Total increase/(decrease) in profit before tax and equity		**(3 395)**	**3 395**

2010	**Carrying amount $'000**	**-10%**	**+10%**
Unit Trusts	4 211	(421)	421
SAFA Cash Management Fund	18 774	(1 877)	1 877
Total increase/(decrease) in profit before tax and equity		**(2 298)**	**2 298**

31.4.4 Breakthrough Loan property price risk

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.

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).

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.

	2011			2010		
	Carrying amount $'000	-5%	+5%	Carrying amount $'000	-5%	+5%
Breakthrough Loan	67 716	(4 094)	4 435	58 281	(3 505)	3 860
Total increase/(decrease) in profit before tax and equity		**(4 094)**	**4 435**		**(3 505)**	**3 860**

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.*

		2011		2010	
	Category	Carrying value $'000	Fair value $'000	Carrying value $'000	Fair value $'000
Financial assets					
Cash and cash equivalents	N/A	3 807	3 807	2 145	2 145
Investments	Fair value through profit or loss	101 674	101 674	81 266	81 266
Investments	Held-to-maturity	12 103	12 484	20 011	20 241
Loans and advances	Amortised cost	1 817 393	1 927 939	1 649 910	1 750 023
Other financial assets	Financial assets (at cost)	884	884	4 502	4 502
Total financial assets		**1 935 861**	**2 046 788**	**1 757 834**	**1 858 177**
Financial liabilities					
Borrowings	Financial liabilities (amortised cost)	1 760 800	1 771 826	1 584 934	1 587 250
Derivative financial instruments	Hedge accounting (fair value through equity)	3 189	3 189	6 369	6 369
Payables	Financial liabilities (at cost)	8 193	8 193	6 241	6 241
Income tax equivalents payable	Financial liabilities (at cost)	3 006	3 006	3 014	3 014
Provision for dividend	Financial liabilities (at cost)	203	203	-	-
Total financial liabilities		**1 775 391**	**1 786 417**	**1 600 558**	**1 602 874**
Net financial assets		**160 470**	**260 371**	**157 276**	**255 303**

32.2 Fair value estimation

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. The yield curve is derived from the cash rate (overnight), current interbank money market rates (maturities less than one year) and current interest rate swap levels (maturities of one year and longer).

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.

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.

SHARED APPRECIATION COMPONENT OF THE BREAKTHROUGH LOAN

Note 2.12 describes the accounting policy adopted in relation to the shared appreciation component of the Breakthrough Loan.

The fair value is estimated by management based on individual property valuations provided by independent parties. These valuations are adjusted by HomeStart's contractual equity stake and appreciation factor.

The valuations used by management are primarily determined by Hometrack Australia using an automated valuation method. Prior to accepting an automated valuation for use, management reviews the statistical probability of error provided by Hometrack Australia to ensure that the risk of material misstatement to the financial statements is unlikely.

When management judges that valuations determined using an automated valuation method are not sufficiently accurate, valuations provided by either the Valuer General or another independent valuer are used.

The following summarises how the fair values of properties used as collateral for Breakthrough Loans have been determined.

	2011 %	2010 %
Valuation determined using an automated method (Hometrack Australia)	94.31%	93.00%
Valuation provided by the Valuer General	5.57%	5.54%
Other independent valuation used	0.12%	1.46%

32.3 Hierarchical classification of financial assets measured at fair value

The following discloses, for each class of financial instrument measured at fair value, the level in the fair value hierarchy into which the fair value measurements are classified in their entirety, segregating fair value measurements in accordance with the following levels:

- Level 1 – quoted prices (un-adjusted) in active markets for identical assets or liabilities
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There have been no significant transfers between Level 1, Level 2 and Level 3 during the financial year.

2011	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets measured at fair value				
SAFA Cash Management Fund	-	24 944	-	24 944
Unit Trusts	-	9 014	-	9 014
Breakthrough Loan	-	-	67 716	67 716
Total financial assets measured at fair value	**-**	**33 958**	**67 716**	**101 674**
Financial liabilities measured at fair value				
Derivative financial instruments	-	3 189	-	3 189
Total financial liabilities measured at fair value	**-**	**3 189**	**-**	**3 189**

2010	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets measured at fair value				
SAFA Cash Management Fund	-	18 774	-	18 774
Unit Trusts	-	4 211	-	4 211
Breakthrough Loan	-	-	58 281	58 281
Total financial assets measured at fair value	**-**	**22 985**	**58 281**	**81 266**
Financial liabilities measured at fair value				
Derivative financial instruments	-	6 369	-	6 369
Total financial liabilities measured at fair value	**-**	**6 369**	**-**	**6 369**

32.4 Reconciliation of Level 3 fair value measurements

	2011 $'000	2010 $'000
Fair value at 1 July	**58 281**	**40 303**
Breakthrough Loan settlements	12 134	18 271
Breakthrough Loan discharges	(4 048)	(2 963)
Unrealised change in fair value of loans (note 6)	1 349	2 670
Fair value at 30 June	**67 716**	**58 281**

Note 31.4.4(c) discloses sensitivity of HomeStart's profit to movements in the values of properties used as collateral for a Breakthrough Loan.

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 statements as at 30 June 2011 (nil, 2009-10).

33.2 Operating leases

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 statements, are payable as follows:

	2011 $'000	2010 $'000
Not later than one year	850	1 001
Later than one year but not later than five years	2 744	3 978
Total operating lease commitments	**3 594**	**4 979**

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 statements, are receivable as follows:

	2011 $'000	2010 $'000
Not later than one year	219	182
Later than one year but not later than five years	228	385
Total operating lease receivables	**447**	**567**

33.3 Remuneration commitments

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 2011 and 30 June 2010. HomeStart estimates that commitments from existing employment positions within one year and annually will be consistent with salaries and wages expenses in note 10.

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 $44.1 million ($44.3 million, 2009-10). 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 2011.

As at 30 June 2010, HomeStart had a dividend liability of $1 012 000 contingent on the approval of the recommended dividend by the Minister for Housing and the Treasurer.

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.

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

	2011 $'000	2010 $'000
Profit for the year	**10 865**	**11 744**
Loss on sale of fixed assets	5	-
Amortisation of discount or premium on purchase of held to maturity financial investments	30	90
Ineffective hedge	-	(23)
Depreciation and amortisation expense	641	705
Unrealised change in fair value of loans	(1 349)	(2 670)
Unrealised change in market value of investments	(31)	(104)
Realised change in market value of investments	(388)	423
Reinvestment of managed fund distribution	(1 321)	(1 077)
Bad debts written-off	583	177
Fees applied directly to loan accounts	(5 251)	(6 273)
Changes in assets and liabilities:		
Increase in provision for impairment	301	1 375
(Decrease) increase in deferred loan fee income	(27)	983
(Decrease) increase in deferred loan fee expense	58	(647)
(Decrease) increase in fair value adjustment	(60)	638
Increase in payables	1 999	1 780
Increase in provision for employee benefits	60	302
Increase (decrease) increase in other liabilities	142	(150)
Increase in unearned interest income	471	650
Decrease (increase) in income tax equivalents payable	(8)	1 640
(Increase) decrease in financial and other assets	(99)	507
Net cash provided by operating activities	**6 621**	**10 070**

NOTE 36
Events after balance date

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

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
audgensa@audit.sa.gov.au
www.audit.sa.gov.au

To the Chair of the Board
HomeStart Finance

As required by section 31 of the *Public Finance and Audit Act 1987* and section 27 of the *Housing and Urban Development (Administrative Arrangements) Act 1995*, I have audited the accompanying financial report of HomeStart Finance for the financial year ended 30 June 2011. The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2011
- a Statement of Financial Position as at 30 June 2011
- a Statement of Changes in Equity for the year ended 30 June 2011
- a Statement of Cash Flows for the year ended 30 June 2011
- notes, comprising a summary of significant accounting policies and other explanatory information
- a Certificate from the Chair, Deputy Chair, Chief Executive Officer and the General Manager, Corporate Services and Chief Financial Officer.

Board's Responsibility for the Financial Report

The members of the Board are responsible for the preparation of the financial report that gives a true and fair view in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards, and for such internal control as members of the Board determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report 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 comply with relevant ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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 members of the Board, as well as the overall presentation of the financial report.

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

Opinion

In my opinion, the financial report gives a true and fair view of the financial position of HomeStart Finance as at 30 June 2011, 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
23 September 2011

Government of South Australia

HomeStart FINANCE