Annual Report

2019 | 20

Government of South Australia

HomeStart FINANCE

30 years

Contents

Letter of transmittal

24 September 2020

Treasurer the Hon Rob Lucas MLC
Parliament House
North Terrace
Adelaide SA 5000

Dear Treasurer,

HomeStart Finance 2019-20 Annual Report

It gives me great pleasure to present a summary of HomeStart's achievements over the 2019-20 financial year.

HomeStart continued to make home ownership a reality for more South Australians in more ways, assisting 1 358 households to purchase their own home.

I welcome any requests for further information should you have any questions about this report.

Yours sincerely,

Jim Kouts
Chair
HomeStart Finance

Report from Chair & CEO

The term stress testing is not a fixture of mainstream culture. In business and, in particular, financial institutions such as HomeStart Finance, it is a part of our DNA.

We regularly test the financial strength of the organisation against a range of scenarios that one hopes they never have to face.

As we move through the first phase of COVID-19 we have been tested yet continued to deliver on our mission of making home ownership a reality for more people in more ways. And this is evident in our 2019-20 financial year results.

A noteworthy record profit before tax of $31.2 million was achieved, representing a return on equity of 19.6% and our return to government for the year exceeded $60 million. Total loan settlements for the year were $422.6 million, although the loan book fell slightly to $2.23 billion.

After 30 years in business our direct financial contribution to the State Government is more than $724 million. HomeStart Finance started with an initial "equity" grant of $20 million and has helped over 77 000 people into their own home in that time.

We assisted 1 358 families achieve their home ownership goals this year. Whilst below our budget expectations, there are many contributing factors; an economy impacted by cautious consumer confidence; a reduction in real estate listings in excess of 25% from the previous year; a reduction in the RBA cash rate to the lowest level on record; devastating bushfires during summer; and finally, a global pandemic.

The year though was not without fresh highlights, a major one being a record 501 construction loans totalling $180 million, predominantly to first home buyers, and strongly supporting the South Australian building and construction industries. This represents a doubling of growth in our construction loans since we embarked on a collaborative program to support the construction industry in the 2015-16 financial year. HomeStart's lending activities supported more than 800 jobs in South Australia in 2019-20, according to economic modelling.

In the 2019-20 State Budget, the Treasurer launched our innovative Starter Loan, which allowed us to assist an additional 110 low-to-moderate income earners achieve their dream of home ownership. This program was further enhanced during the year and will now increase its capacity from 200 homes over two years to more than 700 homes in the next 7 years, thereby increasing the Government's commitment to affordable housing.

Additionally, HomeStart is proud to have financed 663 Graduate Loans this year, taking the total number to 5 563 and totalling $1.67 billion in lending since the launch of this innovative loan in 2002.

Our strong and focussed approach to credit quality saw our 90-day arrears reduce from 0.85% to 0.62%, and total loans in arrears are down to just 1.8% from 2.11% last year, which is an exceptional result considering the difficult market conditions.

Market conditions and impact on HomeStart Finance

The economic impacts of COVID-19 have been significant on both the economy and our customers, and any recovery will be long, slow and require continued and sustainable fiscal and monetary policy stimulus.

We have helped more than 750 customers who required loan deferrals as a result of COVID-19 and it is pleasing to see that more than 400 have returned to normal payments. While we want to help people into their own home, we are also committed to 'keeping people in home ownership' wherever we possibly can with an empathetic approach to our customers experiencing financial difficulty.

Importantly, HomeStart continues to expand the overall home buyers' market. This is evidenced by the fact that 84% of new HomeStart customers were unable to secure a loan from a major lender at the time of application, another important reminder that HomeStart does not compete directly with other lenders.

Further to this and cementing our position as a stepping-stone lender for South Australians, 683 customers transitioned back to mainstream lenders, up 35% on the previous financial year. This planned turnover and approach to customer management enables HomeStart to release funds so we can assist more individuals and families into their own homes sooner.

Our customer-centric responses to both the adverse impact of the Black Summer bushfires of 2019-20 and COVID-19 were something that further united everyone from our Board to our frontline employees. Our hard-working customer service team proactively contacted customers in bushfire affected regions and offered support. This forward thinking and compassion from our team assured those customers affected that HomeStart is available and able to assist, should they experience any financial hardship. HomeStart also made generous donations to the SA Bushfire Appeal and the Kangaroo Island Bushfire Appeal.

Governance and looking ahead

Our dividend policy, which was adjusted to 100% net profit in the previous financial year, remains in place. As our business grows the need to retain capital to meet defined capital adequacy requirements will be challenged if current policy continues. This is an area of HomeStart's governance that will be subject to further discussions in the coming year with the Government.

I wish to put on record our thanks to the former Transport, Industry and Planning Minister, Mr Stephan Knoll to whom we reported. The Board looks forward to working directly with the Treasurer, Mr Rob Lucas, and his department.

As I reflect on HomeStart's reason for being, our purpose remains clear and our results enviable. We provide an ongoing return to the South Australian Government and contribute to the South Australian economy in a way that inspires us to achieve new heights every year. This will be even more important given the uncertainty associated with the current pandemic, the significant impact on the economy, and the likelihood of a future long and slow recovery in coming years.

I would like to sincerely thank our customers who are always at the centre of our endeavours. I also wish to thank our Board and management team for their continued leadership, and our employees for their unrivalled resilience, commitment and service in this year of adversity. From this position of strength, we look forward to helping more people into home ownership sooner.

Jim Kouts
Chair

This year especially, I want to thank our employees for their commitment and dedication to our reason for being of "making home ownership a reality for more people in more ways". Their passion, enthusiasm, and strong sense of purpose they bring to work every day continually makes me smile and know I am fortunate to lead a great team. This year above all others has been more challenging than usual, but everyone has adapted to the changes brought upon us by COVID-19 and become more resilient as a result, yet all the while remaining focused on achieving life-changing outcomes for our customers.

From the bushfires to COVID-19, our teams worked together to deliver customer-focused solutions with compassion and empathy. In summer following the bushfires, we made contact with all our customers in the affected regions to offer support and assistance. We will also be donating a number of replaced laptops to CFS brigades as part of our computer replenishment and upgrade program. In response to the pandemic, we quickly put in place options for our customers with loan repayment deferrals and a range of other measures, including ceasing all annual CPI indexation of loan repayments for 12 months, reducing our fixed interest rates, and waiving a range of fees.

We achieved the rapid implementation of a COVID-safe working environment for our 114 employees and quickly established our day-to-day functions in a work-from-home environment through great teamwork and with the minimum interruption to our customers. The insight we have gained from these challenges is that our HomeStart team is strong and robust, and well positioned to evolve in the future. In a year when "challenging the status quo" has never been a truer phrase, it has given us a high level of confidence that we can continue to adapt to the needs of our business and customers in face of any challenges we confront.

Whilst it seems such a long time ago now, earlier in the financial year HomeStart celebrated its 30th birthday and this gave us pause to reflect on our key achievements to date. We are immensely proud to have delivered on our reason for being and assisted over 77 000 South Australians into home ownership with a total return to the State Government of more than $724 million. These results have been achieved from an initial capital of $20 million and therefore represent a solid return on the initial State Government investment in HomeStart in 1989.

In 2019-20, HomeStart helped 1 358 families to achieve their home ownership dreams. Of these settlements, 501 were construction loans, 94% per cent of which were first home buyers, reinforcing our strong support of the construction industry, and continuing to create pathways for new homeowners in South Australia.

Our Strategic Plan for 2018-21 is focused on our customers and their experience combined with innovation, growth and investing in our technological capabilities to ensure we remain agile and strong. The progress we have achieved across many aspects of that plan has been noteworthy and we end the year with HomeStart being in a more sustainable and robust technological space from both a risk process and customer perspective.

The launch of the Starter Loan in September and announced by the Treasurer in the 2019 SA State Budget, is yet another example of HomeStart's commitment to innovation and finding more ways to assist people achieve home ownership. This has seen an additional 110 families purchase their own home this financial year. As we look to leverage recent additional State and Federal housing stimulus initiatives, we aspire to helping even more people into home ownership.

Our brokers continued to be a major part of our business and sourced 64% of our loan settlements this financial year. We thank them for their business. Mortgage Choice was added to our broker panel and we look forward to developing a long and lasting relationship with its 90 brokers in South Australia. We have commenced a review of our broker website to make enhancements to further assist our brokers and their customers access the latest information, and I look forward to reporting on these in the new financial year.

We have been able to continue to help more people in more ways by increasing our utilisation of available video communication capabilities, which improved accessibility to our lenders, particularly for potential customers in regional and remote areas. This has created greater flexibility for our customers as loan interviews can now be conducted online, including the provision of interpreters for migrant communities and new South Australians.

Over the course of the year, HomeStart continued to give back to our community by supporting numerous deserving South Australian organisations and not-for-profit groups through either sponsorships or donations - none more so than those appeals created to assist families affected by the bushfires.

We also initiated world-leading research with Global Centre of Modern Ageing to understand more about the needs of our senior South Australians and investigate how HomeStart can help this market. The findings and recommendations will be considered in the next financial year along with a number of other product enhancements which are currently under way.

We will be launching our new advertising campaign in the new financial year. Whilst it will be sad to move on from the current group of commercials, which have been so effective for us, I am confident the refresh will be equally as impactful in reaching more South Australians and increasing awareness of how we can assist them achieve their dream of owning their own home.

Finally, a sincere thank you to our focused Board for their leadership, wise counsel and support during the year. To my new Executive team who have been formed over the year, I thank them for their energy, ideas, preparedness to work together as a team, and support. With so much uncertainty surrounding us today, the last few lines of Tennyson's poem Ulysses, which is something of a personal mantra, have never rung truer - "To strive, to seek, to find, and not to yield". The HomeStart team and I look forward to helping even more South Australians achieve their home ownership dreams in the year ahead.

John Oliver
Chief Executive Officer

Our Organisation

Our reason for **being**

HomeStart's reason for being is to make home ownership a reality for more people in more ways. After 30 years of operation, this purpose remains clear and represents an ongoing source of value for the South Australian Government and state.

Our **organisation**

As a statutory corporation operating under the Housing and Urban Development (Administrative Arrangements) (HomeStart Finance) Regulations 2007, 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 community housing and aged care residential accommodation or facilities.

SA Government **priorities**

During 2019-20 HomeStart reported to the Minster for Transport, Infrastructure and Local Government and Minister for Planning the Hon Stephen Knoll MP. Currently HomeStart reports to the Treasurer, the Hon Rob Lucas MLC.

HomeStart seeks to actively contribute towards broader State Government priorities, making South Australia an affordable place to live through the provision of innovative and targeted housing finance.

Access to affordable and sustainable home finance is an important component in ensuring the dream of owning a home remains within reach for all South Australians.

The associated benefits of home ownership, such as increased wellbeing and stability, also assist to create South Australia as a vibrant state with safe and healthy neighbourhoods.

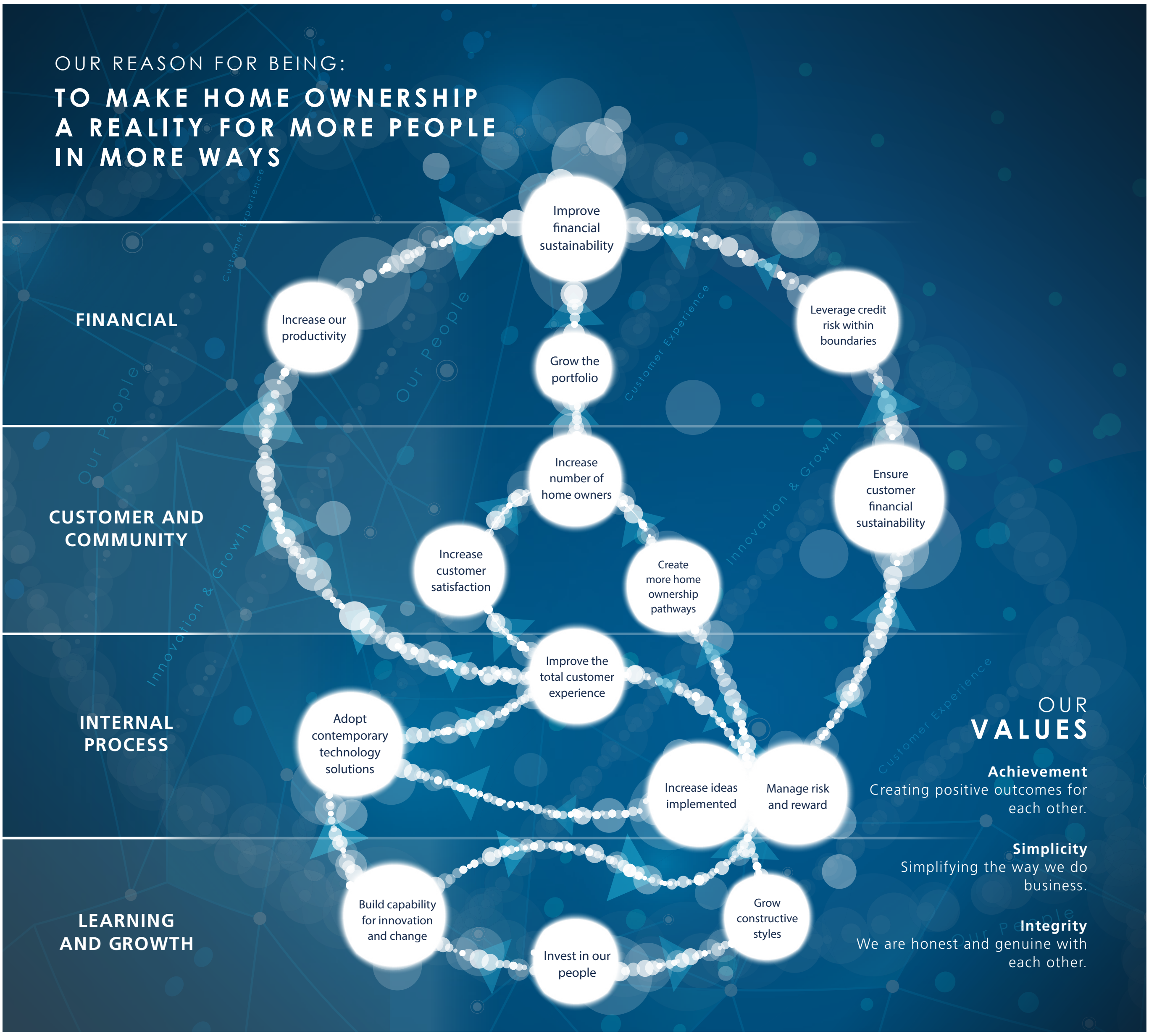
Our **strategy 2018-21**

HomeStart's Strategic Plan is summarised by a strategy map (over page), which shows the logical progression from developing our people and improving our processes, to creating home ownership outcomes for customers and the community, and achieving financial sustainability over the long term.

The strategy map emphasises the need for innovation and growth; an enhanced focus on our customers and their experience; and investing in and lifting our technological capability to ensure we remain agile and resilient.

Our strategy 2018-21

This strategy map highlights how we achieve our goals:



Customer & Community

Our customers

Our customers come from a range of backgrounds and circumstances including:

- first home buyers starting out
- graduates looking to buy their own home
- migrants from more than 59 countries setting permanent roots in South Australia
- single parents starting over
- moderate income households in need of a borrowing boost
- seniors looking to fund lifestyle changes with a reverse mortgage
- singles moving out of their parents' home
- public housing tenants moving out of rental accommodation.

Of the 1 358 customers we helped in 2019-20:

- 955 were first home buyers
- 60% were leaving private rental
- 30% bought homes in the northern fringes of metropolitan Adelaide, while 14% bought homes in regional areas
- 501 built new homes, representing 36.9% of new lending
- the average loan size was $317 752, an increase of 0.9% on last financial year
- the average purchase price was $350 236
- 84% would not have been able to secure finance from a mainstream lender at the time of their application.

Over 30 years we have helped over **77 000 South Australian households** to buy their own home.

Lending

The South Australian housing market remained relatively stable in 2019-20. The Real Estate Institute of South Australia (REIA) reports that the median detached house price in Adelaide decreased 0.52% in moving annual average terms to $477 500 in the year to June 2020. Adelaide currently has the second lowest median house price of any capital city in Australia.

The lending market faced a number of challenges throughout the year, which impacted settlements. Overall, HomeStart settled 1 358 loans in 2019-20, representing a decrease of 279 loans from the previous year. Despite challenging conditions in the construction sector, HomeStart's construction loans increased by 3% to 501 loans and representing 37% of total new lending.

HomeStart strengthened its market position as a unique, niche lender in a soft market and during a pandemic on the back of its innovative product offering.

Our loans

HomeStart's standard home loan offers flexible repayment and interest rate options to assist customers with the purchase of an existing home, refinance their current home, build a new house or purchase land for a later build. In addition to the standard loan, HomeStart has a range of innovative home loans that enable customers to borrow more or get started sooner with less upfront costs.

Graduate Loan

Since 2002, the Graduate Loan has helped 5 563 graduates buy a home with a deposit from 3% plus upfront costs, with loans totalling more than $1.6 billion. The Graduate Loan is available to graduates with Certificate III and above qualifications. HomeStart settled a total of 663 Graduate Loans in 2019-20.

Loans for construction

HomeStart's construction option remains unique in that home buyers are not required to make loan repayments for the first nine months or until construction is complete, whichever comes first. For the past three years, HomeStart has worked to establish relationships with almost all leading builders and developers across the state, thereby enabling first home buyers to access house and land packages for very low upfront costs.

This area of HomeStart's lending activities has grown to 501 in 2019-20, representing more than $180 million of lending this year, and 94% of these customers were first home buyers. Against the backdrop of the current economic environment, this is a very strong result.

Shared Equity

HomeStart is regarded as one of Australia's most experienced shared equity operators, having offered the Breakthrough Loan since 2007. In 2017-18, the Breakthrough Loan was superseded by the new Shared Equity Option launched in April 2018. The Shared Equity Option provides low-to-moderate income customers with a significant buying boost of up to 33% without increasing their ongoing commitments. In exchange, the customer agrees to share a pro-rata portion of capital gains or losses on the property when it is eventually sold. A total of 29 Shared Equity Option loans valued at $2.1 million were settled in 2019-20.

Advantage Loan

The Advantage Loan is an additional loan of up to $45 000 with a primary loan for people earning less than $60 000 per annum, after tax. It is designed to help home buyers increase their borrowing capacity without increasing repayments. Repayments are not required on the Advantage Loan until the primary loan is repaid. The Advantage Loan also has a lower interest rate, equivalent to CPI.

In 2019-20 a total of 258 Advantage Loans were settled. A decrease of 28.3% compared with the previous financial year, valued at $6.9 million in lending. Since inception, the Advantage Loan has helped 13 695 households achieve their home ownership aspirations.

Wyatt Loan

In conjunction with The Wyatt Trust, HomeStart offers eligible low income households a loan of up to $10 000 to assist with the upfront costs associated with a home loan. The Wyatt Loan is taken out with a primary HomeStart loan, and offers an interest and repayment-free period of five years.

The Wyatt Trust is a not-for-profit organisation dedicated to reducing financial disadvantage and improving the quality of life for South Australians. Since 2007, 399 customers have accessed the Wyatt Loan. In 2019-20, a total of 26 Wyatt Loans were settled to the value of $240 607.

The Wyatt Loan represents a highly effective means of assisting customers with the most pressing barrier to home ownership - meeting the deposit and upfront costs.

Low Deposit Loan

The Low Deposit Loan offers a 3% deposit option for home buyers to purchase an existing home in metropolitan South Australia. A total of six Low Deposit Loans were settled this financial year.

Starter Loan

The Starter Loan is an initiative announced in the 2019 South Australian State Budget and supported by the Affordable Housing Fund. Launched in September 2019, it is a secondary loan designed to help cover the upfront costs of buying or building a home.

In the 10 months since launch, there have been 110 Starter Loans settled, valued at $998 722. This has helped facilitate a further $28 million in lending for 2019-20.

Seniors Equity Loan

The Seniors Equity Loan is a reverse mortgage product for over 60s to unlock the equity in their home. This helps seniors fund lifestyle expenses, home renovations or to supplement their income. A total of 112 Seniors Equity Loans were settled this financial year at a value of $9.6 million.

Distribution

The broker channel has continued to grow with the focus on improving our efficiency and service. During 2019-20, brokers settled 874 new loans worth almost $289 million, representing 64% of new lending. HomeStart now has 615 accredited brokers that can offer a range of loans, with 79 new brokers accredited this financial year.

HomeStart has three offices located in Adelaide, Morphett Vale and Salisbury. A total of 484 loans were settled for $121.6 million in the 2019-20 financial year via the HomeStart offices, including 161 loans valued at almost $44 million from the Adelaide office and 323 loans valued at more than $78 million from the south and north offices combined.

Customer service

Customers connect with HomeStart in a variety of ways including face-to-face, over the phone and online through social media channels and the corporate website. Translator services are provided to assist customers from culturally and linguistically diverse backgrounds.

Since 2010, HomeStart has used the Net Promoter Score (NPS) to measure customer satisfaction and loyalty – that is the likelihood a customer would recommend HomeStart to friends and family. The NPS allows HomeStart to measure customer sentiment and ensure we continue to provide a good customer experience.

In 2019-20, HomeStart's average NPS score was 56%, which dramatically exceeds the financial services industry average, as found in Roy Morgan's Advocacy Report, Financial Institutions, Monthly Report February 2020*, which shows that ING was top NPS performing mainstream lender at 47.8% for the period.

The corporate website attracted 208 094 visitors during 2019-20, of which 75.2% were first time users. The majority of users came via their mobile device (61.4%) followed by desktop (34%) and tablet (4.5%).

HomeStart's Facebook community of potential and current customers increased from 12 382 followers to 13 097, which is a 5.7% increase. Further, 4 083 users were driven to the HomeStart corporate website from Facebook.

In the market, HomeStart continued with the 'Future You'

*http://www.roymorgan.com/findings/8339-banking-nps-202003300509 advertising campaign targeting four customer segments. This campaign highlights how getting into your own home sooner is possible with HomeStart and continues to support the overarching strategy of 'making home ownership a reality for more people in more ways'.

By investing in brand building, via television, radio, bus backs, AdShel, digital advertising and social media engagement, along with leveraging partnerships and events, HomeStart successfully retained strong brand awareness levels at 81%.

Both construction loans and the Graduate Loan were a focus of product-focused marketing campaigns to raise brand awareness and consideration amongst both the first home buyer and non-first home buyer segments.

Community contribution and social responsibility

HomeStart supports the community through partnerships, sponsorships, seminars, corporate volunteering and donations. Relationships are developed with a wide variety of organisations, not-for-profits and events that share similar values and help to make positive social change for the state of South Australia.

HomeStart's aim is to have a positive and sustainable impact on customers, people, community and environment. The belief is this leads to a sustainable business that creates value for the shareholder, the Government of South Australia, and in turn value for future generations of home buyers.

Seminars

HomeStart hosts free home buyer seminars to help educate the public on the home buying process. Three seminars were held in 2019-20 attracting 157 attendees.

Seminars were also delivered specifically to migrant groups and seniors' organisations such as Community Housing, SAHA (Affordable Homes Assist & Real Estate Agents), Northern Migrant Resource Centre, Cornerstone Housing and Anglicare Counsellors, with a total of 196 attendees across these seminars.

Partnerships

In 2019-20, HomeStart partnered with the following organisations and events:

- Adelaide 36ers Basketball
- Bhutanese Community of SA
- Boo at the Zoo
- Adelaide Festival Centre
- Netball SA
- New Year's Eve Fireworks
- Something on Saturday Festivals
- The Indian Australian Association of South Australia
- TAFE SA Building and Construction
- TAFE SA Fashion Graduate Parade
- TAFE SA Costume and Design Awards.

Donations

In 2019-20, HomeStart helped the following organisations by donating to their causes:

- Mercer SuperCycle (The Hospital Research Foundation)
- State Emergency Relief Fund SA
- Kangaroo Island Mayoral Relief and Recovery Bushfire Fund
- Bhutanese Association of South Australia
- Football South Australia
- RSPCA SA
- Habitat for Humanity
- Catherine House Inc
- Unity Housing Company

Learning & Growth

Our **people**

Our people are central to HomeStart's success.

The 2018-2021 Strategic Plan recognises learning and growth as a key perspective.

To achieve this we continue to:

- develop the skills and experience necessary to deliver the organisation's innovation and change agenda
- support development so our people can learn and adopt new work practices
- continue to build a culture where our people are personally fulfilled, work effectively together, and do great work
- put the right resources into developing and enhancing the knowledge, skills and behaviours needed to be successful.

This ensures our people can get the job done in an environment where the pace of change is increasing.

We continue to invest in a suite of leadership development programs, including coaching, 360-degree feedback tools and leadership programs. We use cultural and leadership diagnostic tools to measure our culture, identify opportunities for improvement and inform our development initiatives. We also delivered a self-leadership program for non-people-leaders to improve productivity, assist with higher levels of employee satisfaction and retention, improve customer service, and support a more open, inclusive and cooperative organisational culture.

In addition to diagnostic tools, we undertook an employment engagement survey in May 2020. This survey measured our current employee engagement score at 78%, which is above the global average score of 73% and above the current public sector employee engagement index. Our employee engagement survey also told us, amongst other things, our people are highly engaged in "empowerment", "prepared to go the extra mile" and "understand how their contributions help the organisation to reach its strategic goals". Our Culture Council continues to engage with teams to support diagnostic and employee engagement survey outcomes to ensure we continue to be a great place to work.

Despite restrictions due to the health crisis, the Wellbeing Team also continued to deliver a full calendar of events and activities to support a holistic approach to the total wellbeing of our people across five essential elements: Purpose, Social, Physical, Financial and Community, to ensure our people "leave work healthier than when they arrived".

Learning and growth statistics

Documented review of individual performance management

Employees with	% of workforce
A review within the past 12 months	100.0
A review older than 12 months	0.0
No review	0.0

Average days leave per full-time equivalent employee

Leave type	2017-18	2018-19	2019-20
Sick leave	5.6	5.8	4.6
Family carer's leave	1.6	1.8	1.0
Miscellaneous special leave	0.0	0.0	0.0

Number of employees by age bracket and gender

Age bracket	Male	Female	Total	% of total workforce
15-19	0	0	0	0
20-24	0	2	2	1.8
25-29	2	2	4	3.5
30-34	7	3	10	8.8
35-39	8	9	17	14.9
40-44	6	10	16	14.0
45-49	6	12	18	15.8
50-54	10	6	16	14.0
55-59	8	8	16	14.0
60-64	8	5	13	11.4
65+	1	1	2	1.8
TOTAL	**56**	**58**	**114**	**100.0**

Leadership and management training expenditure

Training and development	Total cost $'000	% of total salary expenditure
Total training and development expenditure	261	2.1

Executives by gender

Male	%	Female	%
3	60.0	2	40.0
			100.0

Further human resources information is available from the Office of the Commissioner for Public Sector Employment website publicsector.sa.gov.au.

Organisational chart

- Treasurer
  - HomeStart Finance
    - Chief Executive
      - Chief Financial Officer
        - Analysis
        - Finance & Treasury
        - Information Services
        - Strategy & Innovation
        - Business Intelligence
        - Facilities
      - Head of Customers & Origination
        - Sales Initiation
        - Sales
        - Product Development
        - Industry Partnerships
        - Marketing & Communications
        - Continuous Improvement
      - Head of Risk & Lending
        - Risk Assurance
        - Legal
        - Credit Assessment
        - Lending Operations
        - Customer Operations
      - Executive Services
        - People & Culture
        - Change Management
        - Executive Assistant to CEO

Internal processes

Corporate governance

HomeStart Finance is a statutory corporation operating under the Housing and Urban Development (Administrative Arrangements) (HomeStart Finance) Regulations 2007.

Under the State Government's administrative arrangements, HomeStart falls under the ministerial responsibility of the Treasurer, the Hon Rob Lucas MLC.

HomeStart's approach to corporate governance is guided by legislation, State Government guidelines issued by the Department of Premier and Cabinet, Treasurer's Instructions issued by the Department of Treasury and Finance, and principles of best practice.

Board of Management

HomeStart is administered by a seven member Board of Management (Board). 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 2019-20 are identified on pages 24 and 25.

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 Treasurer 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.

A Department of Treasury and Finance appointed observer attends each Board meeting.

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

Audit Committee

This committee is chaired by Sue Edwards and includes two other Board member representatives. Management personnel and representatives of the Auditor-General and internal auditors also attend meetings. 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
- approving changes to the risk management framework
- to operate in a commercial manner and manage risk prudently.

Asset and Liability Committee (ALCO)

This committee is chaired by Chris Ward and includes two other Board member representatives. The Chief Executive Officer and Chief Financial Officer are also members of this committee. Other management personnel and representatives from the South Australian Government Financing Authority (SAFA) also attend the meeting. The committee ensures HomeStart:

- maintains sound, prudent financial asset, liability and capital management practices for the long-term financial viability of HomeStart
- monitors all credit and market risks
- approves changes to variable interest rate settings.

Board Credit Sub-Committee

This sub-committee is chaired by Darryl Royans and includes two other Board member representatives.

The sub-committee meets on an ad-hoc basis to review loans to community housing groups on behalf of the Board.

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 objectives, 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.

Board member remuneration

Member remuneration is determined by the Governor, on the advice of the Chief Executive of the Department of Premier and Cabinet. Board member remuneration information is provided at Note 8 to the financial statements.

Board member benefits

During or since the 2019-20 financial year, no Board member has received or become entitled to receive a personal benefit (other than a remuneration benefit included at Note 8 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.

Executive appointment and remuneration

Responsibility for the appointment of the Chief Executive Officer (CEO) rests with the Board, and responsibility for executive appointments rests with the CEO. Details of executive remuneration are set out in Note 7 to the financial statements.

Risk management

HomeStart has an enterprise-wide approach to managing risks to ensure they are identified and managed at all levels of our operations.

While oversight of risk management remains the primary responsibility of the Board, each committee has specific roles and responsibilities in relation to risk management. The Audit Committee monitors all operational risks, including a regular review of the areas of highest risk. The Asset and Liability Committee (ALCO) monitors all credit and market risks. The Credit sub-committee assesses and reviews community lending risks.

Risk management is an integral part of everyday work and is supported by:

- a Risk Management Framework that outlines how risk is managed at HomeStart
- a Risk Management Policy that provides the roles and responsibilities for each of the three lines of defence; employees, risk assurance, and independent assurance such as internal audit
- a Risk Appetite Statement summarising HomeStart's tolerance against various risk indicators
- a Risk Management Plan outlining continuous improvements and timeframes for implementation
- identification, assessment (using AS/NZS ISO 31000:2018) and recording of risks and controls through a risk management system
- continuous monitoring and reassessment of risks and internal controls, prompted by our risk management system's interactive email capability and through regular discussion at executive and team level
- organisation-wide feedback on existing and emerging risks
- comprehensive reporting to Executive, Audit Committee and Board.

Strategic risk

Discussion and assessment of risks and opportunities form part of our strategic and business planning process to enable us to prioritise objectives, maximise outcomes and mitigate threats. Our planning takes into consideration our external environment, market context, ministerial and government objectives as well as internal capabilities.

Risk and control self-assessments are conducted for each division against the strategy to ensure current risks are captured and monitored or mitigated.

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. Analysis is underpinned by credit risk systems that have been developed using a combination of theory and experience, drawn from the behaviour of our customer base.

The Credit Assessment Group ensures that changes to our policies result in sound lending decisions and arrears management practices.

The Credit sub-committee assesses and reviews lending to community housing organisations.

Regular and comprehensive reporting and monitoring occurs to ALCO, Audit Committee and Board.

Market risk

A comprehensive set of policies govern HomeStart's funding and interest rate risk management activities. These policies are monitored by ALCO at its monthly meetings and daily by the Chief Financial Officer. HomeStart's funding is entirely sourced from the South Australian Government via the South Australian Government Financing Authority (SAFA), so the exposure to market risk is limited to SAFA's exposure.

Operational risk

Operational risks are those inherent in the day-to-day functions of HomeStart. The risk management system facilitates a comprehensive assessment, communication and monitoring framework for these risks. Management regularly reviews its risk profiles to ensure appropriate internal controls are in place and operating effectively. Any incidents that occur are recorded against the relevant risk and are investigated and mitigated where possible, within set timeframes dependent on the risk rating.

Information security risk management

HomeStart has a Cyber Security Program to safeguard against information security risk as outlined in the standard ISO/IEC 27001:2013 Information Security Management. The program includes a suite of policies specific to information security.

Compliance, internal control and assurance

The 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.

HomeStart's organisational compliance framework supports the identification and assessment of our legal obligations and management and monitoring of our compliance responsibilities on an ongoing basis. This framework is reviewed on a regular basis to reflect any relevant legislative changes or any organisational structure and subsequent role changes.

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.

An Anti-Money Laundering and Counter Terrorism Financing Program is in place with suspicious matters reported to the Australian Transaction Reports and Analysis Centre (AUSTRAC).

While internal fraud is a risk that HomeStart is 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 delegations
- an internal audit program
- segregation of duties
- dual controls in appropriate areas
- internal policies, procedures, monitoring and reconciliation
- a Fraud Governance Control Plan
- Public Interest Disclosure process
- a 'ten days leave in a row' policy for all employees
- a strong internal culture and organisational values.

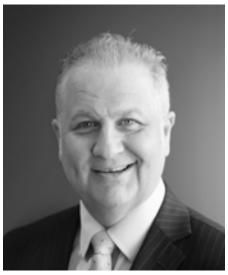
Internal and external audit

External audit is undertaken by the Auditor-General of South Australia and an Independent Auditors Report is provided to the Board. The report for this financial year can be found on page 71.

Deloitte conducted the operational internal audit function for 2019-20 which was based on a three-year rolling audit plan.

The audit of new lending and arrears is conducted in-house, with results reported to the Audit Committee.

Board members



Jim Kouts
Chair

Mr Kouts has significant commercial, strategic and governance experience across a range of national and state-based private and government sector organisations.

He was previously the Australian Head of Corporate Affairs for the global energy and services group, ENGIE. He is currently a Director of his corporate advisory business, Executive Advisory, a Non-Executive Director of the Beston Global Food Company, a Non-Executive Director of the Adelaide Convention Bureau, a Non-Executive Director of the Adelaide Venue Management Corporation and a Strategic Adviser to Adelaide Airport Limited. He was formerly a Director of the Electricity Supply Industry Planning Council and Deputy Chair of the Botanic Gardens of Adelaide.

Mr Kouts was appointed to the Board in November 2005 and appointed Chair in December 2013.

Chris Ward
Deputy Chair

Mr Ward is a professional director with experience in multiple business disciplines following a career in Banking and Finance. As well as being an Advisory Board member to a number of private companies he also provides pro bono mentoring to a small number of businesses. Previous Directorships include South Australian Film Corporation, Australian Dance Theatre and Lisa Fahey Foundation.

Mr Ward was appointed to the Board in June 2012 and appointed Deputy Chair in December 2013.

Sue Edwards

Ms Edwards is a former partner at Deloitte and is currently Chief Financial Officer for the Mitolo Group. She specialises in providing business advice, including strategy, finance and taxation and brings financial services experience through past roles in treasury management, and is also a Board member of Museum SA.

Ms Edwards was appointed to the Board in December 2010.

Darryl Royans

Mr Royans has extensive finance and management experience gained through a 40-year career with the Commonwealth Bank of Australia. Prior to retirement from the bank, he held the position of State Manager for SA & NT Commercial Banking, Risk. Mr Royans consults to a private financier, is a Justice of the Peace and is the former Chair of the Alwyndor Aged Care Board.

Mr Royans was appointed to the Board in December 2013.

Carmel Zollo

Ms Zollo served the South Australian community as a Member of the Legislative Council from 1997, and as a Minister between 2005 and 2009. She retired at the 2014 State Election. Ms Zollo was Minister across several portfolios including Emergency Services and Correctional Services. She served in many Parliamentary roles prior to becoming a Minister. She also chaired and was a member of many Standing and Select Committees throughout her career, as well as having a history with community organisations.

Ms Zollo was appointed to the Board in December 2016. She resigned from the board in August 2019.

Shanti Berggren

Ms Berggren is the Deputy General Counsel at Optus Business with 28 years' experience practising law in different areas, including litigation, IP, ICT and telecommunications. Ms Berggren worked in Los Angeles, Singapore and Sydney before returning to Adelaide in 2005. Her in-house roles have had great emphasis on leadership, and balancing risk management with driving sound commercial outcomes. Ms Berggren is the Chair of the Board of Directors of Wilderness School and the Chair of the University of Adelaide Law School Advisory Board.

Ms Berggren was appointed to the Board in March 2017.

Cathie King

Ms King is a professional director with broad strategic and governance experience across national and South Australian-based private sector and government organisations. She is a Non-Executive Director of EML and Chair of the Board Risk and Compliance Committee, Non-Executive Director of Don Dunstan Foundation and Chair of the Committee of Management, a Board Member of Common Ground SA, a Director of Trinity Advisory Ltd and a Non-Executive Director of the Adelaide Venue Management Corporation. Ms King has previously been a Director and Deputy Chair of Adelaide Fringe Inc, Chair of Eastside Skillshare, Non-Executive Director of SA Ambulance Service and a Member of the Riverland Winegrowers Advisory Panel. Ms King provides strategic communications advice to Australian and international businesses in a variety of regulated industries, including the energy, health, waste and hospitality sectors.

Ms King was appointed to the Board in July 2017.

Andrew Seaton

Mr Seaton has extensive finance, strategic, commercial and project management experience reflecting over 30 years working in banking, natural resources and defence industries.

Mr Seaton is the Managing Director and Chief Executive Officer at Australian Naval Infrastructure, which is the owner and developer of shipyard infrastructure in support of the Commonwealth's continuous naval shipbuilding program. He is also a non-executive Director of Cavpower Pty Ltd, the privately-owned Caterpillar equipment dealer in South Australia and a non-executive Director of ASX listed companies Strike Energy Ltd and Hydrocarbon Dynamics Ltd.

Mr Seaton's previous roles include Chief Financial Officer of Santos Limited, Vice President Investment Banking with Merrill Lynch and Client Director with NAB.

Mr Seaton was appointed to the Board in October 2019.

Member	Board attendance	
	Eligible to attend	Meetings attended
J Kouts (Chair)	11	11
C Ward (Deputy)	11	11
S Edwards	11	11
D Royans	11	11
C Zollo	2	2
S Berggren	11	10
C King	11	11
A Seaton	8	8

Member	Audit Committee attendance	
	Eligible to attend	Meetings attended
J Kouts (Chair)	-	-
C Ward (Deputy)	-	-
S Edwards	7	7
D Royans	-	-
C Zollo	-	-
S Berggren	2	2
C King	7	7
A Seaton	5	5

Member	Asset & Liability Committee attendance	
	Eligible to attend	Meetings attended
J Kouts (Chair)	-	-
C Ward (Deputy)	11	11
S Edwards	-	-
D Royans	11	11
C Zollo	2	2
S Berggren	8	8
C King	-	-
A Seaton	-	-

Statutory **information**

Work Health & Safety (WHS)

HomeStart is committed to ensuring and maintaining a safe work environment, with a focus on an injury free workplace while providing an environment where there is a high level of engagement.

HomeStart continues to meet key requirements of WHS legislation and ensures the WHS Manual is updated in accordance with changes to legislation or through regular cycle updating.

As a result of the coronavirus, a COVID-19 working party was established to support and work through the health crisis. A dedicated central point for employees was created to provide information about the coronavirus disease. The internal site was updated regularly as new information emerged and contained links to external non-government and government resources.

Activities to support a safe work environment include:

- customer facing employees were provided with "Dealing with Angry or Aggressive Customers" training
- onsite trained Mental Health First Aid Officers and First Aid Officers
- regular emergency evacuation drills
- annual influenza vaccination program
- provision of online training; mandatory and optional opportunities
- provision of the Employee Assistance Program
- conducting worksite inspections across all locations
- conducting ergonomic assessments, in the workplace and work from home.

WHS statistics

Table 1: Work health and safety prosecutions, notices and corrective action taken	Number
Number of notifiable incidents pursuant to WHS Act Part 3	0
Number of notices served pursuant to WHS Act Section 90, Section 191 and Section 195 (provisional improvement, improvement and prohibition notices)	0
Number of prosecutions pursuant to WHS Act Part 2 Division 5	0
Number of enforceable undertakings pursuant to WHS Act Part 11	0

Table 2: Agency gross workers compensation expenditure for 2019-20 compared with 2018-19

Year	Expense $'000
2018-19	5
2019-20	40

Freedom of Information Act 1991 – Information Statement

HomeStart Finance is a statutory corporation, established by regulation under the Urban Renewal Act 1995 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 State Government.

Policy documents

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

- HomeStart home loan brochures
- HomeStart guide to fees and charges
- HomeStart Privacy Policy
- HomeStart Credit Reporting Policy
- HomeStart Annual Report.

Copies of the above documents can be accessed from homestart.com.au or by contacting the Freedom of Information Officer on (08) 8203 4000.

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.

Public Interest Disclosure Act 2018

No public interest information has been disclosed to a responsible officer of HomeStart Finance under the Public Interest Disclosure Act 2018 (SA).

Contractual arrangements

HomeStart did not enter into any procurement contracts during 2019-20 with a value greater than $4 million (GST inclusive).

Overseas travel

There was no overseas travel undertaken during 2019-20.

Public complaints

Category of complaint by subject	Number
Complaints received through the Credit and Investments Ombudsman	10
Collections	5
Policy	3
Service	2
Complaints lodged with State Ombudsman	0
Complaints direct to HomeStart	38
Collections	6
Policy	14
Service	17
Other	1
Total complaints	**48**

HomeStart is committed to conducting its business operations in accordance with the law as well as with best practice and Australian Standards. Consistent with this commitment, HomeStart's complaints handling policy is guided by AS ISO 10002-2006, which is reviewed annually. A customer complaints register provides valuable information and feedback to ensure that policies and procedures remain current.

Consultancy expenditure

Consultant	Purpose of consultancy	Number	Cost $'000
Total consultancies below $10 000	Various	0	0
Total consultancies $10 000 and above		5	143
Bee Squared Consultants	Process improvement advice		
Brett & Watson	Actuary review		
BDO Chartered Accountants	Review of FBT framework		
PwC	Construction lending due diligence		
Global Centre for Modern Ageing	Market research		
Total consultancies		**5**	**143**

Financials

Sustainable financial management

In 2019-20, HomeStart achieved the financial targets set by the State Government, including an operating profit before tax of $31.2 million and a return on equity of 19.66% against a target of 9%.

HomeStart continued to provide substantial payments to the Government, amounting to $60.0 million for the year and totalling $724.4 million since HomeStart's inception in 1989.

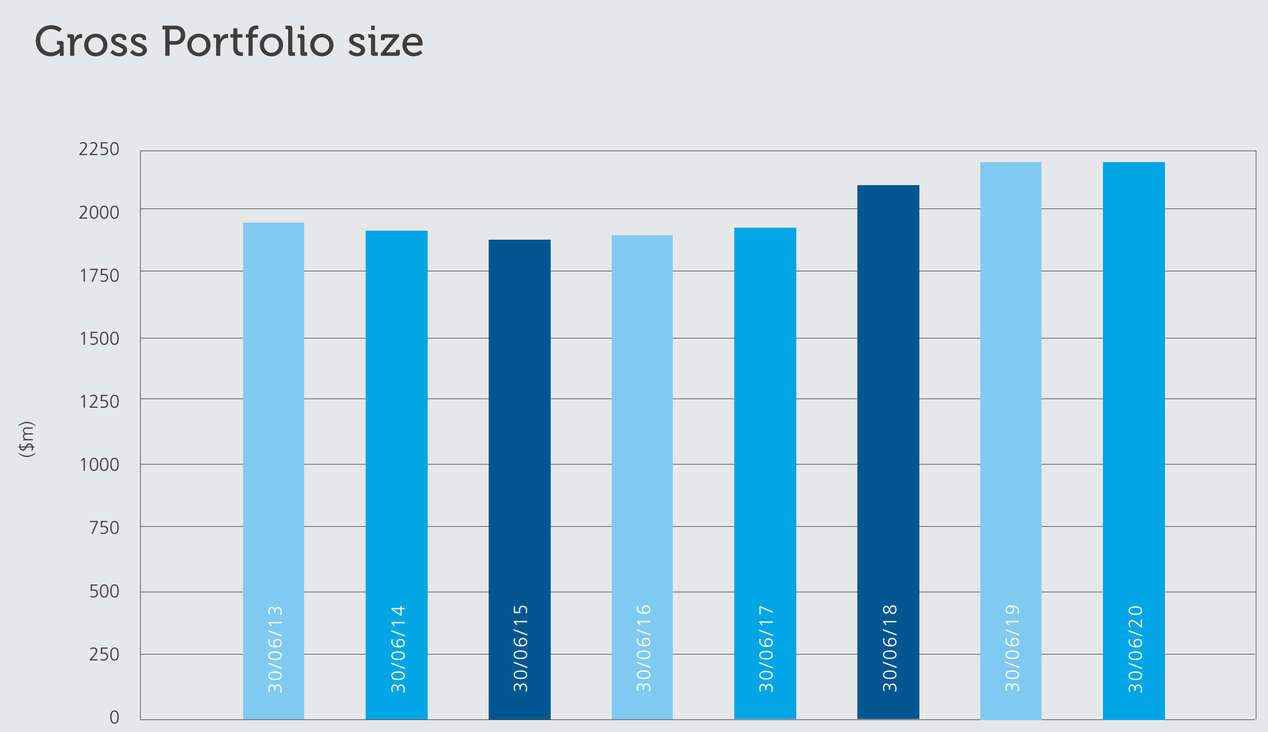
The pandemic took hold amidst a challenging economic environment. HomeStart entered this period from a position of strength, with solid underlying profitability, sound credit and a robust capital position. These factors, combined with the organisational focus of delivering social obligations to our customers within a commercial framework and prudent risk management, ensure long term value for our stakeholders.

HomeStart received a Community Service Obligation (CSO) reimbursement of $7.3 million in 2019-20 ($6.9 million, 2018-19) in recognition of the cost of providing our non-commercial activities. HomeStart's debt funding from SAFA was $2 billion against a borrowing limit of $2.46 billion. Our capital adequacy ratio was 12.4% (12.5%, 2018-19) against a target of 12%. HomeStart will maintain a minimum 12% capital adequacy ratio, with additional capital to be contributed by government to maintain this ratio, if necessary.

Asset and liability management

The gross loan portfolio was stable during 2019-20 at $2.2 billion ($2.2 billion, 2018-19). Market conditions enabled a higher than usual proportion of customers to refinance their loan to major lenders, a positive outcome closely aligned with HomeStart's role and purpose in the market. Growth in new lending was evident in the construction finance segment, where HomeStart's product offering and partnerships with many builders and developers enabled a record number of customers to build a new home.

In response to market trends, in particular commercial banks tightening their credit policies, HomeStart maintained its commitment to the ongoing availability of some higher risk products, while at the same time adopting a prudent approach to credit quality and provisioning. This is achieved by utilising first class credit risk management systems to inform lending decisions, and to allocate and monitor.



Funding

HomeStart's lending is financed by its capital base and borrowings from the 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 comprehensive set of policies, approved by ALCO, outlines all treasury policies, processes and procedures, and the limitations within which our treasury functions must operate. These policies also govern the structure and approach to the management of our debt portfolio.

ALCO oversees the management of asset price setting and policy, and is ultimately responsible for the treasury operations of HomeStart. The Executive Committee is responsible for developing and implementing funding strategies as well as reviewing and monitoring interest rate exposures.

Provisioning

HomeStart has recognised specific and collective provisions of $23.4 million ($18.6 million in 2018-19) against its loan portfolio.

The direct and indirect effects of the COVID-19 pandemic led to a significant rise in collective provisions during the second half of the year. As at 30 June 2020, there were 735 loans ($201 million) under negotiated payment arrangements due to the virus. Consistent with industry practices and the forward-looking nature of AASB 9 Financial Instruments, HomeStart recognised an additional of $3.7 million in collective provision attributable to these loans, and reflecting an underlying economic outlook that is expected to deteriorate through 2020-21.

HomeStart also maintains a general reserve for credit losses of $10.7 million ($7.3 million, 2018-19), consistent with the Australian Prudential Regulation Authority (APRA) prudential risk management requirements of retaining sufficient retained earnings for capital adequacy purposes.

Management believes that the sum of its specific and collective provisions, together with the general reserve for credit losses, constitutes adequate provisioning to meet potential loan losses in the future.

Accounting policies

HomeStart has adopted the new accounting standard AASB 16 Leases from 1 July 2019.

Financial indicators	2012	2013	2014	2015	2016	2017	2018	2019	2020
Operating profit ($m)	14.4	16.4	17.0	15.6	17.0	20.3	18.9	23.3	31.2
Return on Equity	9.22%	10.26%	10.21%	9.09%	10.29%	12.57%	11.52%	14.49%	19.66%
Net interest margin	0.84%	1.16%	1.09%	1.03%	1.18%	1.32%	1.20%	1.31%	1.98%
Balance sheet strength									
Capital ($m)	154.5	164.2	169.3	173.2	157.3	165.4	162.2	159.2	158.4
Provisions ($m)	19.2	20.1	20.5	18.0	17.3	18.2	17.5	18.6	23.4
Gross loan portfolio ($m)	1975.2	1962.2	1907.6	1840.2	1867.7	1939.7	2103.1	2245.7	2227.5
Net loan losses ($m)	0.54	0.84	0.90	0.40	0.81	0.17	0.07	0.02	0.08

Financial contributions to the State Government

$724.4 million paid to the State Government since inception.

Payment Type ($m)	1995-2013	2014	2015	2016	2017	2018	2019	2020	TOTAL
Guarantee fee	185.7	28.0	27.5	26.5	28.0	28.6	29.7	27.5	381.5
SAFA[2] admin fee	12.1	1.1	1.0	1.0	1.0	1.1	1.2	1.2	19.7
Tax Equivalent	57.2	5.0	5.1	4.9	5.2	6.2	6.0	9.0	98.6
Dividends	72.6	7.2	7.1	7.1	7.1	9.1	14.8	22.3	147.3
Interim (special) Dividend	47.3	0.0	0.0	20.0	0.0	10.0	0.0	0.0	77.3
Total paid	**374.9**	**41.3**	**40.7**	**59.5**	**41.3**	**55.0**	**51.7**	**60.0**	**724.4**

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

Certification of the **Financial Statements**

For the year ended 30 June 2020

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 2020 and the results of its operations and cash flows for the financial year.

We certify that the internal controls employed by HomeStart Finance for the financial year 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 HomeStart Finance 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.

Jim Kouts
Chair
15 September 2020

Chris Ward
Deputy Chair
15 September 2020

John Oliver
Chief Executive Officer
15 September 2020

Andrew Mills
Chief Financial Officer
15 September 2020

Statement of Comprehensive Income

For the year ended 30 June 2020

	Note	2020 $'000	2019 $'000
Interest income	4	104,630	111,703
Interest expense	4	(25,820)	(43,604)
Net interest income	4	**78,810**	**68,099**
Other income	5	11,256	11,627
Broker fees		(3,187)	(3,446)
Employee benefits expenses	6	(12,733)	(12,335)
Bad and impaired loans expense	10	(6,595)	(1,470)
Depreciation and amortisation expense	11	(2,202)	(1,178)
Other expenses	12	(6,969)	(8,283)
Profit before income tax equivalents and government guarantee fee expenses		**58,380**	**53,014**
Government guarantee fee	9	(27,159)	(29,727)
Profit before income tax equivalents		**31,221**	**23,287**
Income tax equivalents expense	2.2	(9,366)	(6,986)
Profit after income tax equivalents		**21,855**	**16,301**
Other Comprehensive Income			
Items that will be reclassified subsequently to net result when specific conditions are met			
Change in fair value of derivatives		(247)	(1,825)
Total other comprehensive income		**(247)**	**(1,825)**
Total comprehensive result		**21,608**	**14,476**

The accompanying notes form part of these financial statements. The profit after income tax equivalents and total comprehensive result are attributable to the SA Government as owner.

Statement of Financial Position

As at 30 June 2020

	Notes	2020 $'000	2019 $'000
Assets			
Cash and cash equivalents	30.1	4,235	3,145
Financial investments	14	855	962
Loans and advances	15	2,187,657	2,208,115
Other financial assets	16	317	680
Intangible assets	17	5,044	4,373
Property, plant and equipment	18	8,738	2,608
Other assets	19	392	447
Total assets		**2,207,238**	**2,220,330**
Liabilities			
Payables	21	2,636	4,629
Derivative financial instruments	31.2.2	4,449	4,202
Short-term borrowings	22	651,151	768,430
Employee benefits	23	2,437	2,237
Income tax equivalents payable	24.1	4,265	3,857
Provision for dividend	24.2	1,205	1,694
Long-term borrowings	22	1,379,480	1,272,000
Other liabilities	25.1	3,190	4,064
Total liabilities		**2,048,813**	**2,061,113**
Net assets		**158,425**	**159,217**
Equity			
Reserves	26	6,267	3,104
Retained earnings		152,158	156,113
Total equity		**158,425**	**159,217**

The accompanying notes form part of these financial statements. The total equity is attributable to the SA Government as owner.

Statement of Changes in Equity

For the year ended 30 June 2020

	Notes	Retained earnings $'000	General reserve for credit losses $'000	Derivatives valuation reserve $'000	Total Equity $'000
Balance at 30 June 2018		**155,335**	**8,084**	**(2,377)**	**161,042**
Profit after income tax equivalent for 2018-19		16,301	-	-	16,301
Change in fair value of derivatives	2.5.5	-	-	(1,825)	(1,825)
Total comprehensive result for 2018-19		**16,301**	**-**	**(1,825)**	**14,476**
Transfer to/from credit loss reserve	26	778	(778)	-	-
Transactions with SA Government as owner					
Dividends paid/payable	24	(16,301)	-	-	(16,301)
Balance at 30 June 2019		**156,113**	**7,306**	**(4,202)**	**159,217**
Adjustment on initial application of AASB16		(545)	-	-	(545)
Adjusted balance at 1 July 2019		**155,568**	**7,306**	**(4,202)**	**158,672**
Profit after income tax equivalent for 2019-20		21,855	-	-	21,855
Change in fair value of derivatives	2.5.5	-	-	(247)	(247)
Total comprehensive result for 2019-20		**21,855**	**-**	**(247)**	**21,608**
Transfer to/from credit loss reserve	26	(3,410)	3,410	-	-
Transactions with SA Government as owner					
Dividends paid/payable	24	(21,855)	-	-	(21,855)
Balance at 30 June 2020		**152,158**	**10,716**	**(4,449)**	**158,425**

The accompanying notes form part of these financial statements. All changes in equity are attributable to the SA Government as owner.

Statement of Cash Flows

For the year ended 30 June 2020

Cash flows from operating activities	Notes	$'000 2020	$'000 2019
Cash inflows			
Interest received			
Interest received on cash		12	31
Interest received on loans and advances		100,018	108,197
Fees and commissions received		1,971	1,936
Bad debts recovered		127	146
Receipts from SA Government			
EquityStart grant received		130	557
Community Service Obligation subsidy received		7,256	6,921
Other receipts		682	488
Cash generated from operating activities		**110,196**	**118,276**
Cash outflows			
Employee benefit payments		(12,535)	(12,431)
Payments for supplies and services		(6,446)	(7,474)
Payments to brokers		(3,877)	(3,997)
Borrowing costs paid		(26,808)	(44,003)
Government guarantee fee paid		(27,537)	(29,731)
Tax equivalent paid		(8,959)	(6,036)
Cash used in operating activities		**(86,162)**	**(103,672)**
Net cash provided by/(used in) operating activities	30.2	**24,034**	**14,604**
Cash flows from investing activities			
Cash inflows			
Shared appreciation components of Breakthrough Loan repaid	32.4	5,652	4,781
Shared appreciation components of Shared Equity Option Loan repaid	32.4	422	35
Proceeds from sale of property, plant and equipment		-	6
Proceeds from investments		107	27
Customer loans repaid		424,889	321,472
Cash generated from investing activities		**431,070**	**326,321**
Cash outflows			
Purchase of property, plant and office and computer equipment		(419)	(399)
Purchase of software		(1,907)	(1,494)
Shared appreciation component of Shared Equity Option Loan settled	32.4	(2,081)	(3,580)
Customer loans settled		(408,717)	(463,305)
Cash used in investing activities		**(413,124)**	**(468,778)**
Net cash provided by/(used in) investing activities		**17,946**	**(142,457)**
Cash flows from financing activities			
Cash inflows			
Proceeds from borrowings		100,000	200,000
Cash generated from financing activities		**100,000**	**200,000**
Cash outflows			
Dividends paid to SA Government		(22,344)	(14,819)
Repayment of leases		(608)	-
Repayment of borrowings		(117,938)	(57,367)
Cash used in financing activities		**(140,890)**	**(72,186)**
Net cash provided by financing activities	30.3	**(40,890)**	**127,814**
Net increase/ (decrease) in cash and cash equivalents		**1,090**	**(39)**
Cash and cash equivalents at the beginning of the period		3,145	3,184
Cash and cash equivalents at the end of the period	30.1	**4,235**	**3,145**

The accompanying notes form part of these financial statements.

Notes to an forming part of the Financial Statements

For the year ended 30 June 2020

NOTE 1 About HomeStart Finance

1.1 About HomeStart Finance

HomeStart was established as a for-profit State Government organisation and operates under the *Housing and Urban Development (Administrative Arrangements) (HomeStart Finance) Regulations 2007* . It reports to the Minister for Transport, Infrastructure and Local Government.

HomeStart is an individual entity. HomeStart does not control any investee, has no joint arrangements and no interest in unconsolidated structured entities.

HomeStart's reason for being is to make home ownership a reality for more people in more ways.

HomeStart Loans
HomeStart provides home loans principally to low to moderate income households and other needs groups. HomeStart Loans are the primary loan product and the outstanding value of the product as at 30 June 2020 was $1.990 billion ($2.004 billion, 2018-19).

In addition, HomeStart offers a range of shared equity products and the outstanding value as at 30 June 2020 was $49.1 million ($52.6 million, 2018-19).

HomeStart also offers a Seniors Equity (reverse mortgage) product and the outstanding value as at 30 June 2020 was $78.8 million ($76.9 million, 2018-19).

Subsidies
HomeStart provides subsidised Advantage Loans of up to $45 000 to lower income earners.

As at 30 June 2020, the interest rate applying to Advantage Loans was 2.43% (1.94%, 2018-19). The outstanding value of Advantage Loans at 30 June 2020 was $78.7 million ($78.1 million, 2018-19).

For the year ended 30 June 2020, HomeStart received a Community Service Obligation (CSO) subsidy payment of $4.0 million ($3.9 million, 2018-19) from the Department of Treasury and Finance for the Advantage Loan subsidy provided.

1.2 Impact of COVID-19 pandemic on HomeStart Finance

The COVID-19 pandemic has impacted on the operations of HomeStart and the impacts are included under the relevant disclosure notes. The key impacts in 2019-20 were:

- By 30 June 2020 a total of 735 loan accounts had requested some form of negotiated payment arrangements due to the effects of the virus. Of this group, at 30 June 2020, 321 were expected to re-commence payments at a future date and will be monitored. The other loan accounts remain under review.
- This event was judged to represent a "significant increase in credit risk" and these loans were therefore included in Stage 2 of the Expected Credit Loss (ECL) model. Other loans not requiring assistance may also enter Stage 2 due to the pandemic. Refer to note 2.5.3.1.
- A sub-set of these loans was assessed to be impaired and were included under Stage 3 of the ECL model and a specific provision was raised. Refer to note 15.1.
- The HomeStart loan product is designed so that the instalment is indexed upward by CPI each year. As a response to the pandemic, HomeStart paused the indexation of home loan repayments as a means of providing some form of cash flow assistance. This will have the effect of providing a small amount of cash flow relief to home loan customers and has minimal cash flow, portfolio, or financial impact on HomeStart in the coming year.
- HomeStart continued normal operations largely remotely from late March, including undertaking new loan applications, approving and settling applications in flight, and discharging mortgages where repaid.

NOTE 2 Significant accounting policies

2.1 Basis of preparation

The financial statements are general purpose financial statements prepared in compliance with:

- Section 23 of the Public Finance and Audit Act 1987;
- Treasurer's Instructions and Accounting Policy Statements issued by the Treasurer under the Public Finance and Audit Act 1987; and
- relevant Australian Accounting Standards.

HomeStart has applied Australian Accounting Standards that are applicable to for-profit entities, as HomeStart is a for-profit entity. The financial statements are prepared based on a 12 month reporting period and presented in Australian currency. All amounts in the financial statements and accompanying notes have been rounded to the nearest thousand dollars ($'000), except when otherwise indicated.

2.2 Taxation

In accordance with Treasurer's Instruction 22 Tax Equivalent Payments, HomeStart is required to pay to the SA Government an income tax equivalent. The income tax liability is based on the State Taxation Equivalent Regime, which applies the accounting profit method. This requires that the corporate income tax rate be applied to the net profit. The current income tax liability relates to the income tax expense outstanding for the current period. HomeStart is also 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:

- when the GST incurred on a purchase of goods or services is not recoverable from the ATO, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable; and

- receivables and payables, which 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 part of receivables or payables in the Statement of Financial Position.

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

2.3 Income

2.3.1 *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 2.3.3).

2.3.2 *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 may result in a loss that is recognised in the Statement of Comprehensive Income, the loss 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 rate method at a rate of interest, based on four year (for Advantage Loans settled before 3 February 2014), seven year (for Advantage Loans settled after 3 February 2014) and 10 year (for EquityStart Loans) South Australian Government Financing Authority (SAFA) Bonds.

2.3.3 *Interest income – impaired loans*

HomeStart ceases accruing interest income on loans when it considers 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 accruing status.

A loan is no longer considered impaired if all arrears have been eliminated and HomeStart judges that the customer is capable of servicing their future obligations under the facility, or when it otherwise becomes well secured.

2.3.4 *Loan origination fees received or receivable*

Loan origination fees are recognised over the estimated life of loans in the portfolio using the effective interest rate method.

The average life of loans in the originated loan portfolio used for loan fee income recognition is reviewed periodically to ensure the amortisation methodology is appropriate.

2.3.5 *Government grants*

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

Government grants are recognised in the Statement of Comprehensive Income over the periods in which the related costs for which the grants are intended to compensate are recognised as expenses.

2.3.6 *Investment income*

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

2.3.7 *Net gain/loss from disposal of non-financial assets*

Net gain or loss from disposal of non-financial assets is recognised when control of the asset has passed to the buyer and is 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 an income or an expense.

2.3.8 *Other income*

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

2.4 Expenses

2.4.1 *Government guarantee fee*

The government guarantee fee is expensed as it accrues at the rate imposed by the Department of Treasury and Finance.

2.4.2 *Loan origination fees paid or payable*

Loan origination fees are recognised over the estimated life of loans in the portfolio using the effective interest rate method.
The average life of loans in the originated loan portfolio used for loan origination expense recognition is reviewed periodically to ensure the amortisation methodology is appropriate.

2.4.3 *Employee benefits expenses*

Employee benefits expenses include all costs related to employment including wages, salaries, non-monetary benefits and leave entitlements. The expenses are recognised in the period in which services are rendered by the employees.

2.4.4 *Leases*

Policy applicable before 1 July 2019

Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. The straight-line basis 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.

Policy applicable from 1 July 2019

The Treasurer's Instructions (Accounting Policy Statements) specify required accounting policies for public authorities in applying AASB 16. These requirements are reflected in HomeStart's accounting policies as follows:

- right-of-use assets and lease liabilities are not recognised for leases of low value assets, being assets which have a value of $15 000 or less, nor short-term leases, being those with a lease term of 12 months or less, nor leases of intangible assets.
- HomeStart, in the capacity of a lessee, does not include non-lease components in lease amounts.
- right-of-use assets are not measured at fair value on initial recognition for leases that have significantly below-market terms and conditions principally to enable HomeStart to further its objectives.
- right-of-use assets are subsequently measured applying a cost model.

In addition to the above, HomeStart has applied the following:

- at inception of a contract, HomeStart assesses where a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, HomeStart uses the definition of a lease in AASB 16. This policy is applied to contracts entered into, on or after 1 July 2019.

- HomeStart recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

- the right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

- the lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, HomeStart's incremental borrowing rate. HomeStart uses its incremental borrowing rate as the discount rate.

- HomeStart determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased. Lease payments included in the measurement of the lease liability comprise the following:
  - fixed payments, including in-substance fixed payments;
  - variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

- the lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate.

- when the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

- HomeStart has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. HomeStart recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Make good provision

At the expiration of the lease of its office accommodation, HomeStart is required in accordance with 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 ROU assets. This amount has been calculated as an estimate of future costs.

2.5 Assets

Assets are classified in the Statement of Financial Position by their nature and in an order that reflects their relative liquidity. Assets have not been offset unless required or permitted by a specific accounting standard.

Current and non-current classes are not generally presented separately.

2.5.1 *Cash and cash equivalents*

Cash and cash equivalents in the Statement of Financial Position include cash at bank and on hand and other short-term, highly liquid investments with maturities of three months or less that are readily convertible to cash and which are subject to insignificant risk of changes in value.

2.5.2 *Financial assets*

During the current and comparative financial years HomeStart had the following financial assets:

- cash and cash equivalents (refer to note 2.5.1)
- loans and advances at amortised cost (refer to note 2.5.3.1)
- investments at amortised cost - managed funds (refer to note 2.5.2.1)
- loans and advances at fair value through profit or loss - Shared Equity loans (including Breakthrough and Shared Equity Option) (refer to note 2.5.3.2)
- loans and advances at fair value through profit and loss - Seniors Equity loans (refer to note 2.5.3.2)
- derivative financial instruments (refer to note 2.5.5)

Initial measurement and classification

Financial assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and HomeStart's business model for managing them.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in the following categories:

- financial assets at amortised cost (debt instruments)

- financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

HomeStart measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Other than the shared equity loans (Breakthrough and Shared Equity Option loans) and Seniors Equity loans, all HomeStart loans are classified and measured at amortised cost. Refer to note 2.5.3.1.

Business model assessment

HomeStart makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management’s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to HomeStart’s management; and
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment as to whether contractual cash flows are solely payments of principal and interest (SPPI)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are defined as SPPI, HomeStart considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, HomeStart considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit HomeStart's claim to cash flows from specified assets; and
- features that modify consideration for the time value of money - e.g. periodic reset of interest rates.

Interest rates on certain retail loans made by HomeStart are based on standard variable rates (SVRs) that are set at the discretion of HomeStart. SVRs are generally based on a central bank rate and also include a discretionary spread. In these cases, HomeStart will assess whether the discretionary feature is consistent with the SPPI criterion by considering a number of factors, including whether:

- the borrowers are able to prepay their loans without significant penalties;
- the market competition ensures that interest rates are consistent across lenders; and
- any regulatory or customer protection framework is in place that requires lenders to treat customers fairly.

All of HomeStart's retail loans contain prepayment features. A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the Statement of Financial Position 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.

The net gain or loss includes any increase/decrease in the value of financial asset, any dividend or interest earned on the financial asset.

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

The two shared equity loan products (Breakthrough and Shared Equity Option) and Seniors Equity loans are required to be measured at fair value through profit and loss under AASB 9 as the contractual terms of the loans do not give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Refer to note 2.5.3.2.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after HomeStart changes its business model for managing financial assets.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised (i.e. removed from HomeStart's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- Where HomeStart has transferred contractual rights to receive cash flows of the financial asset and substantially all the risks and rewards of ownership.

2.5.2.1 *Financial investments*

The investments in SAFA cash management funds are measured at amortised cost as the cash flows from the investment represent SPPI and the investment is held with the objective to collect contractual cash flows.

2.5.3 *Loans and advances*

2.5.3.1 *Loans and advances at amortised cost*

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These loans and advances meet the SPPI test and are held within a business model with the objective to collect contractual cash flows and are therefore measured at amortised cost.

Loans and advances are initially recognised at fair value plus transaction costs directly attributable to the origination of the loan or advance. These costs are amortised over the estimated life of the loan. Subsequently, loans and advances are measured at amortised cost using the effective interest rate method, net of any provision for credit impairment.

Subsidised Loans

For subsidised loans, fair value may be less than their face value. If this is the case, 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. The loans are measured at amortised cost.

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.

Impairment - Loans and advances

HomeStart recognises loss allowances for expected credit losses ("ECL") on loans and advances at amortised cost.

HomeStart estimates ECL through modelling the probability of default, loss given default and exposure at default, as follows:

- Stage 1 - Performing - This category includes financial instruments that have not experienced a significant increase in credit risk since their origination. For these financial instruments an allowance equivalent to 12 month's ECL is recognised, which represents the credit losses expected to arise from defaults occurring over the next 12 months.

- Stage 2 - Under-performing - This category includes financial instruments that have experienced a significant increase in credit risk since their origination and are not credit impaired. For these financial instruments an allowance equivalent to lifetime ECL is recognised. Lifetime ECL is the credit losses expected to arise from defaults occurring over the estimated remaining life of financial instruments.

- Stage 3 - Non-performing (impaired) - This category includes financial instruments that are credit impaired. The provision is also equivalent to the lifetime ECL.

Financial instruments in stage 1, 2 and 3 are assessed for impairment collectively using an ECL model. In addition, instruments subject to specific impairment assessment are included in Stage 3.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- financial instruments that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that HomeStart expects to receive);

- financial instruments that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

Credit-impaired financial instruments

At each reporting date, HomeStart assesses whether financial instruments carried at amortised cost are credit-impaired and therefore in default (referred to as 'Stage 3 financial instruments'). A financial instruments is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial instrument have occurred.

Evidence that a financial instruments is in default and therefore Stage 3 credit-impaired includes the following observable data:

- the borrower is unlikely to pay its credit obligations to HomeStart in full, without recourse by HomeStart to actions such as realising security (if any is held);

- rebuttable presumption that loans which are 90 days or more past due are considered credit-impaired;

- significant financial difficulty of the borrower;

- the granting of a concession relating to financial difficulty that would not otherwise normally be extended to a borrower.

Potential losses are determined on loans where reasonable doubt exists about collectability of principal and interest under the terms of the loan contract. This includes all loans where the estimated realisable value of the security is insufficient to cover principal, interest and costs and:

- arrears exceed the lesser of 3 normal monthly instalments or $4 000; or

- repayment reductions have been negotiated; or

- loans are under an accepted hardship application; or

- loans are currently under management by HomeStart due to non-performance; or

- action is being taken to enforce realisation of security (mortgagee-in-possession).

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

It is HomeStart's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least three consecutive months.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position using a provision account and the amount of the loss is included in the Statement of Comprehensive Income.

Write-off

All bad debts are written-off in the period in which they are classified as not recoverable. This is generally the case when HomeStart determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. 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.

Loans that are written off could still be subject to enforcement activities in order to comply with HomeStart's procedures for recovery of amounts due.

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

When determining whether the risk of default has increased significantly since initial recognition, HomeStart considers both quantitative and qualitative information, including expert credit risk assessment, forward looking information and analysis based on HomeStart's historical experience.

When modelling of a parameter is carried out on a collective basis, the loans are assessed on a portfolio basis taking into account differing credit risks with segmentation in groups as follows:

- Graduate loans
- Low deposit loans
- Standard other loans - metropolitan regions
- Standard other loans - non-metropolitan regions

HomeStart uses the following criteria for determining whether there has been a significant increase in credit risk:

- there is an adverse movement in credit risk or loan performance score since inception;
- the current outstanding balance has capitalised;
- a backstop of 30 days past due.

Calculation of expected credit losses

Expected credit losses (ECLs) are calculated using three main parameters i.e. a probability of default (PD), a loss given default (LGD) and an exposure at default (EAD). These parameters are generally derived from statistical models combined with historical, current and forward looking information, including macro-economic data.

For accounting purposes, the 12-months and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and estimated remaining lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date and future economic conditions that affect credit risk.

The LGD represents expected loss conditional on default, taking into account the collateral, its expected value when realised and the time value of money.

The EAD represents the expected exposure at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdown of a facility.

The 12-months ECL is equal to the discounted sum over the next 12-months of monthly PD multiplied by LGD and EAD. Lifetime ECL is calculated using the discounted sum of monthly PD over the full remaining estimated life multiplied by LGD and EAD.

Incorporation of forward-looking information

HomeStart incorporates forward-looking information into both the assessment of whether the credit risk of a loan portfolio has increased significantly since its initial recognition and the measurement of ECL.

HomeStart formulates three economic scenarios: a base case, which is the median scenario assigned a 55% probability of occurring (60%, 2018-19), and two less likely scenarios, one upside assigned a 5% probability of occurring (15%, 2018-19) and one downside assigned a 40% probability of occurring (25%, 2018-19). The base case is aligned with information used by the HomeStart for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities and selected private-sector and academic forecasters.

HomeStart has identified and documented key drivers of credit risk and credit losses for each portfolio of loans and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Incorporating forward looking information, including macro-economic forecasts, increases the degree of judgement required to assess how changes in these data points, will affect ECLs. The methodologies and assumptions, including any forecasts of future economic conditions, are reviewed annually.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial instruments have been developed based on analysing historical data over the past 2 years.

2.5.3.2 *Loans and advances at fair value through profit or loss*

Shared appreciation component of the Breakthrough and Shared Equity Option Loans

The Breakthrough and Shared Equity Option Loan facility includes two loan components (the Breakthrough Loan was discontinued from 1 December 2017 and the Shared Equity Option Loan commenced in April 2018):

- a standard loan component with interest rates and repayments which operate under identical terms to HomeStart's current standard loan product. Refer to note 2.5.3.1 loans and advances at amortised cost.
- a shared appreciation component where repayment of the loan balance is generally deferred until the sale or refinance of the property upon which time the loan balance is repaid along with a scheduled percentage of the appreciated (or depreciated) value of the property.

The shared appreciation component fails the SPPI test and therefore, they are classified as FVTPL. Gains or losses arising from changes in fair value are presented in the Statement of Comprehensive Income in the period in which they arise.

The fair value of the shared appreciation loan component is based on independent valuations of the properties pledged as collateral.

Seniors Equity Loans

The Seniors Equity loans are classified as FVTPL as the inclusion of the no negative equity guarantee results in the loan failing the SPPI test. The fair value of the no negative equity guarantee component of the Seniors Equity loans is based on assumptions around mortality, property value and interest rates.

2.5.4 *Non-financial assets*

2.5.4.1 *Property, plant and equipment*

Property, plant and equipment are initially recorded at cost or at the value of any liabilities assumed, plus any incidental cost involved with the acquisition. Property, plant and equipment are subsequently measured at cost after allowing for accumulated depreciation.

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 recognised at book value, i.e. the amount recorded by the transferor immediately prior to transfer.

Where the payment for an asset is deferred, HomeStart measures the obligation at the present value of the future outflow, discounted using the interest rate of a similar length borrowing.

All property, plant and equipment with a value equal to or in excess of $1 000 are capitalised.

2.5.4.2 *Intangible assets*

Intangible assets are initially measured at cost and are tested for indications of impairment at each reporting date. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment loss.

The acquisition of or internal development of software is capitalised only when the expenditure meets the definition (identifiability, control and existence of future economic benefits) 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 $1 000.

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 useful life of the asset, which is generally between 4 and 10 years.

Costs in relation to website development, 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. Maintenance costs are expensed.

2.5.4.3 *Impairment and revaluation*

All non-current tangible assets are valued at written down current cost and revaluation of non-current assets or group of assets is only performed when its fair value at the time of acquisition is greater than $1.5 million ($1.5m, 2018-19) 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.

HomeStart expects that for all non-current tangible assets the costs of disposal will be negligible, and the recoverable amount to be close to or greater than the asset's fair value.

2.5.4.4 *Depreciation and amortisation of non-financial assets*

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 tangible assets such as office and computer equipment.

The residual values, useful lives of all major assets held by HomeStart, depreciation and amortisation methods are reviewed and adjusted if appropriate on an annual basis.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the time period or method, as appropriate, which is a change in accounting estimates.

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

Depreciation and amortisation of non-financial assets are calculated on a straight line basis over the estimated useful life of the following classes of assets for the current and comparative periods as follows:

Class of asset	Depreciation and amortisation method	Useful life (years)
Leasehold improvements	Straight line	2 – 10
Other office and computer equipment	Straight line	2 – 10
Furniture and fittings	Straight line	3 – 10
Intangible assets	Straight line	4 – 10

2.5.5 *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 or trading purposes. However, derivatives that are not in a hedge relationship are accounted for at FVTPL.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and subsequently remeasured to their 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.

HomeStart enters into interest rate swaps with SAFA to manage interest rate risk. 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 32.1. Movements in the derivatives valuation are shown in the Statement of Changes in Equity.

HomeStart assesses hedge effectiveness using the hypothetical derivative/matched terms method, which creates a derivative instrument to serve as a proxy for the hedged transaction. The hedging instrument is being designated with a non-zero day 1 fair value as it was designated post inception of the trade. However, the hypothetical has a day 1 value equal to zero. All other critical terms of the hedge relationship match at inception and are expected to match in future.

Under HomeStart's policy, in order to conclude that the hedging relationship is effective, all of the following criteria should be met.

- the notional currency amount on the hedging instrument equals the notional currency amount of the hedged item;
- the fair value of the derivative at inception was zero (i.e. derivative was entered into an available market rates);
- the currency is the same for both the hedged item and the hedging instrument;
- the interest settlement dates on the hedging instrument match the expected settlement dates of the forecasted transaction or firm commitment;
- the change in the expected cash flows of the forecasted transaction or firm commitment is based on the same index;
- for updates of assessment, there have been no adverse changes in the risk of counterparty default.

There is a clear economic relationship as both the hedging instrument and hedged item are referenced to the same interest rate index. Therefore a high degree of offset would be expected. The hedge ratio between interest rate swap hedges and the underlying AUD floating rate debt will be 100%. Both the hedged item and hedging instrument are referenced to the same interest rate index; there is no basis risk, and no material cash flow timing differences. No material sources of ineffectiveness are expected.

2.5.5.1 *Cash flow hedges*

The effective portion of the hedge 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.

Hedge effectiveness tests are performed on all derivative financial instruments to determine if they continue to be effective in managing the hedged risk 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 remains until the forecast transaction affects the profit or loss. If the forecast transaction is no longer expected to occur, it is reclassified to the Statement of Comprehensive Income as a reclassification adjustment.

2.6 Liabilities

Liabilities are classified in the Statement of Financial Position according to their nature and have not been offset unless required or permitted by a specific accounting standard.
Current and non-current classes are not generally presented separately.

2.6.1 *Interest-bearing borrowings*

Interest-bearing borrowings are initially recognised at fair value, net of transaction costs incurred. Subsequent to initial recognition, interest-bearing borrowings are measured at amortised cost with any difference between the amount initially recognised and the redemption value being recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest rate method.

2.6.2 *Payables*

Payables include creditors, accrued expenses, employment on-costs, interest, guarantee fee and broker 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 of outstanding liabilities for salaries and wages, long service leave and annual leave.

All payables are measured at their nominal amount, are unsecured 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).

2.6.3 *Employee benefits*

Employee benefits accrue as a result of services provided by the employees up to the reporting date that remain unpaid. Long-term employee benefits are measured at present value and short-term benefits are measured at nominal amounts allowing for known increases from 1 July.

Long-term service leave

The liability for long service leave is measured at the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

Salaries and wages, annual leave and sick leave

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

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 for sick leave.

2.7 Other provisions

Provisions are recognised when HomeStart has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the obligation at the reporting date. If the effect of the time value of money is material, provisions are discounted for the time value of money and the risks specific to the liability.

2.8 Fair value measurement

AASB 13 Fair Value Measurement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, in the principal or most advantageous market, at the measurement date.

HomeStart classifies fair value measurement using fair value hierarchy that reflects the significance of the inputs used in making the measurements, based on the data and assumptions used in the most recent revaluation:

- 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).

The valuation processes and fair value changes are reviewed at each reporting date.

2.9 Unrecognised contractual commitments and contingent assets and liabilities

Commitments include operating, capital and outsourcing arrangements arising from contractual or statutory sources and are disclosed at their nominal value.

Contingent assets and contingent liabilities are not recognised in the Statement of Financial Position, but are disclosed by way of a note and, if quantifiable, are measured at nominal value.

Unrecognised contractual commitments and contingencies are disclosed net of amount of GST recoverable from, or payable to, the Australian Taxation Office. If GST is not payable to, or recoverable from, the Australian Taxation Office, the commitments and contingent liabilities are disclosed on a gross basis.

2.10 Insurance

HomeStart has arranged through SA Government Captive Insurance Corporation (SAICORP) to insure all insurable risks of HomeStart. The excess payable under this arrangement varies depending on each class of insurance held. In addition, HomeStart insures mortgagee in possession properties using Arthur J. Gallagher & Co.

2.11 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 below:

Area of estimate and judgement	Note no.
Loans and advances at fair value through profit or loss – shared equity loans and seniors equity loans	2.5.2, 2.5.3.2, 31.4, 32.2
Fair value of subsidised loans and advances	2.5.3
Loan origination fees received or receivable	2.3.4
Loan origination fees paid or payable	2.4.2
Provision for impairment of loans and advances	2.5.3
Derivative financial instruments	2.5.5, 31.2.2, 32.2
Classification of financial instruments: assessment of the business model within which the instruments are held and assessment of whether the contractual terms of the financial instruments are SPPI on the principal amount outstanding.	2.5.2, 2.5.3

NOTE 3 Changes in accounting policy

3.1 Changes in accounting policies

AASB 16 Leases

HomeStart has initially adopted AASB 16 Leases from 1 July 2019. A number of other new standards and interpretations are also effective from 1 July 2019 but they do not have a material effect on HomeStart's financial statements.

AASB 16 sets out a comprehensive model for lessees accounting that addresses recognition, measurement, presentation and disclosure of leases. AASB 16 replaces AASB 117 Leases and related interpretations.

The adoption of AASB 16 *Leases* from 1 July 2019 resulted in adjustments to the amounts recognised from a lessee perspective in the financial statements:

- AASB 117 *Leases* only required the recognition of an asset and lease liability in relation to finance leases. AASB 16 *Leases* applies a comprehensive model to all leases. Applying AASB 16 will result in leases previously classified as operating leases by lessee having right-of-use assets (under property, plant and equipment) and related lease liabilities being the discounted future lease payment (under borrowings) recognised in the Statement of Financial Position; and
- AASB 117 *Leases* resulted in operating lease payments being recognised as an expense under supplies and services. AASB 16 *Leases* largely replaces this with depreciation expenses that represents the use of the right-of-use asset and borrowing costs that represent the cost associated with financing the right-of-use asset.

HomeStart did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application.

There are no applicable leases where HomeStart is the lessor.

Impact on retained earnings

The total impact on HomeStart's retained earnings as at 1 July 2019 is as follows:

	$'000
Closing retained earnings 30 June 2019 - AASB 117	**156,113**
Assets	
Right-of-use assets	7,032
PP&E Leasehold improvements	(243)
Liabilities	
Lease liability	(8,622)
Other liabilities (operating lease liability)	1,288
Opening retained earnings 1 July 2019 - AASB 16	**155,568**

Reconciliation between operating lease commitments under AASB 117 and lease liability on transition:

	$'000
Operating leases commitments at 30 June 2019 as disclosed under AASB 117	**5,760**
Adjustment for GST portion not deemed as lease liability	(524)
Adjusted operating lease commitments at 30 June 2019	5,236
Discounted using the incremental borrowing rate at 1 July 2019	4,821
Finance lease liabilities recognised as at 30 June 2019	
- Recognition exemption for leases of low value assets	-
- Recognition exemption for leases with less than 12 months of lease term at transition	(24)
- Extension options reasonably certain to be exercised	3,825
Lease liabilities recognised at 1 July 2019	**8,622**

Accounting policy on transition

AASB 16 sets out accounting policies on transition in its transitional provisions. The *Treasurer's Instructions (Accounting Policy Statements)* requires certain choices in those transitional provisions to be taken. HomeStart has adopted the following accounting policies:

- to apply AASB 16 using a modified retrospective approach. The cumulative effect of initially applying the Standard was recognised at 1 July 2019. Comparatives have not been restated.
- at 1 July 2019 AASB 16 was applied only to contracts that were previously identified as containing a lease under AASB 117 and related interpretations.
- the initial measurement of lease liability was the present value of the remaining leases payments discounted using the relevant incremental borrowing published by the Department of Treasury and Finance rate as at 1 July 2019 based on the SA Government's cost of borrowing. The average weighted incremental borrowing rate for this purpose was 2.83% (including guarantee fee).
- the initial measurement of right-of-use assets has been calculated as an amount equal to the lease liability on transition adjusted for prepaid or accrued lease payments and lease incentive liabilities.
- the initial measurement of lease liabilities and right-of-use assets excludes all leases that ended by 30 June 2020.

Except for the changes detailed above, HomeStart has consistently applied the accounting policies as set out in Note 2 to all periods presented in these financial statements.

3.2 Impact of standards not yet effective

HomeStart has assessed the impact of new and changed Australian Accounting Board Standards and Interpretations not yet effective.
None are expected to have a significant impact on HomeStart's financial statements in the period of initial application.

NOTE 4 Net interest income

See accounting policy in notes 2.3.1-4.

Interest income	2020 $'000	2019 $'000
Loans and advances	97,935	106,221
Subsidised loans effective interest income	4,046	4,113
Subsidised loans fair value expense	(333)	(1,745)
Loan origination income amortisation	2,970	3,083
Deposits with banks	12	31
Total interest income	**104,630**	**111,703**
Interest expense		
Borrowings from SAFA	(25,587)	(43,604)
Lease liability	(233)	-
Total interest expense	**(25,820)**	**(43,604)**
Net interest income	**78,810**	**68,099**

NOTE 5 Other income

See accounting policy in note 2.3.5-8.

	2020 $'000	2019 $'000
Fees and charges	2,812	2,734
Bad debts recovered	127	146
Unrealised gain in fair value of loans at FVTPL*	450	-
Realised change in fair value of loans at FVTPL	495	412
EquityStart grant	34	1,343
Community Service Obligation (CSO) subsidy	7,256	6,921
Other	82	71
Total other income	**11,256**	**11,627**

*The shared appreciation component of the Breakthrough and Shared Equity Option Loan is measured at fair value through profit or loss. The fair value of this loan component is estimated based on independent valuations of the properties pledged as collateral. Unrealised losses, if any, are disclosed in note 12 other expenses.

NOTE 6 Employee benefits expenses

See accounting policy in note 2.4.3.

	2020 $'000	2019 $'000
Salaries and wages	10,750	10,054
Long service leave (LSL)	48	240
Annual leave	243	75
Employment on-costs* – superannuation	1,032	961
Employment on-costs – other	567	553
Workers compensation	(171)	188
Board and committee fees	264	264
Total employee benefits expenses	**12,733**	**12,335**

*The superannuation employment on-cost charge represents HomeStart's contribution to superannuation plans in respect of current services of current employees.

NOTE 7 Employee remuneration

Remuneration of employees The number of employees whose remuneration received or receivable falls within the following bands:	**2020** **No.**	**2019** **No.**
$151,000 to $154,000 (*)	n/a	-
$154,001 to $174,000	6	4
$174,001 to $194,000	2	1
$194,001 to $214,000	1	4
$214,001 to $234,000	2	-
$234,001 to $254,000	2	-
$254,001 to $274,000	-	-
$274,001 to $294,000	-	1
$294,001 to $314,000	-	-
$314,001 to $334,000	-	-
$334,001 to $354,000	-	-
$354,001 to $374,000	-	-
$374,001 to $394,000	-	-
$394,001 to $414,000	-	-
$414,001 to $434,000	1	1
Total	**14**	**11**

*This band has been included for the purposes of reporting comparative numbers based on the executive base level remuneration rate for 2018-19.

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, termination payments, superannuation contributions, salary sacrifice, payments in lieu of leave, fringe benefits and any fringe benefits tax paid in respect of those benefits.

The total remuneration received by these employees for the year was $2.88 million ($2.35 million, 2018-19).

Number of employees
HomeStart employed 114 people at the end of the reporting period (114, 2018-19).

NOTE 8 Key management personnel

Key management personnel of HomeStart include the Minister for Transport, Infrastructure and Local Government, members of the Board, the Chief Executive Officer and members of the Executive team who have responsibility for the strategic direction and management of HomeStart.

The Minister is considered a member of the key management personnel of HomeStart due to the power provided under the *Urban Renewal Act 1995* for the Minister to control and direct HomeStart.

The compensation disclosed in this note excludes salaries and other benefits the Minister receives. The Minister's remuneration and allowances are set by the *Parliamentary Remuneration Act 1990* and the Remuneration Tribunal of SA respectively and are payable from the Consolidated Account (via the Department of Treasury and Finance) under section 6 of the *Parliamentary Remuneration Act 1990* .

(a) Board members

Members during the 2020 financial year were:

Mr Jim Kouts (Chair)
Mr Chris Ward (Deputy Chair)
Ms Sue Edwards
Mr Darryl Royans
Ms Shanti Berggren
Ms Catherine King
Ms Carmel Zollo (until 31 August 2019)
Mr Andrew Seaton (from 27 September 2019)

(b) Other key management personnel

The following persons also held positions of authority and responsibility for planning, directing and controlling the activities of HomeStart, directly or indirectly for the entire financial year (unless otherwise indicated):

Mr John Oliver - Chief Executive Officer
Mr Andrew Mills - Chief Financial Officer (from 19 December 2019), Head of Customers & Origination (until 18 December 2019)
Mr Peter Byrnes - Head of Risk & Lending (from 5 August 2019)
Ms Vas Iannella - Head of Customers & Origination (from 4 May 2020)
Ms Vanessa Charlesworth - People & Culture Leader
Ms Antonia Damianos - Acting Head of Customers & Origination (from 19 December 2019 until 1 May 2020)
Mr David Hughes - Chief Financial Officer (until 20 December 2019)

(c) Key management personnel compensation

The compensation of key management personnel for the years ended 30 June 2020 and 2019 included in employee benefits expenses (see note 6) is as follows:

	2020 $'000	2019 $'000
Salaries and other short-term employee benefits	1,151	1,325
Long-term employee benefits (long service leave)	(3)	57
Long-term employee benefits (amounts paid to superannuation plans)	107	122
Total	**1,255**	**1,504**

(d) Board and committee remuneration

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

	2020 No.	2019 No.
$0 - $19,999	1	-
$20,000 - $39,999	4	4
$40,000 - $59,999	3	3
$60,000 - $79,999	-	-
$80,000 - $99,999	-	-
Total number of members	**8**	**7**

The total remuneration received and receivable by members was $0.29 million ($0.29 million, 2018-19) which includes sitting fees, superannuation contributions, salary sacrifice benefits, fringe benefits and related fringe benefits tax.

NOTE 9 Government guarantee fee

See accounting policy in note 2.4.1.

	2020 $'000	2019 $'000
Government guarantee fee paid or payable	27,159	29,727
Total government guarantee fee	**27,159**	**29,727**

The methodology pursuant to policy for calculating the Government Guarantee Fee (GGF) uses the four year term to maturity credit spreads averaged over the 2019 calendar year for the "BBB" stand-alone credit rating band assigned to HomeStart Finance. This has resulted in the GGF rate (approved by the Treasurer) of 0.99%pa for the 2019-20 financial year which applies to new debt or refinancing of maturing debt. Existing debt will continue to attract legacy rates approved in previous financial years.

NOTE 10 Bad and impaired loans expense

See accounting policy in note 2.5.3.1.

	2020 $'000	2019 $'000
Bad and impaired loans expense	81	19
Increase in provision for impairment	6,514	1,451
Total bad and impaired loans expense	**6,595**	**1,470**

NOTE 11 Depreciation and amortisation expense

See accounting policy in note 2.5.4.4.

	2020 $'000	2019 $'000
Other office and computer equipment	276	220
Leasehold improvements	276	315
Right of use buildings	685	-
Right of use motor vehicles	19	-
Intangible assets	946	643
Total depreciation and amortisation expense	**2,202**	**1,178**

NOTE 12 Other expenses

	2020 $'000	2019 $'000
External auditor's remuneration	183	158
Insurance	135	140
Unrealised loss in fair value of loans at FVTPL	-	494
Office accommodation	171	841
Marketing, product development and advertising	1,539	1,711
Internal audit fees	226	155
Loan administration	241	196
Information technology	1,327	971
Consultants' fees	143	60
Human resources and staff development	550	506
Other	2,454	3,051
Total other expenses	**6,969**	**8,283**

Total other expenses amount disclosed includes GST amounts non-recoverable from the ATO.

Consultants

The number of consultancies and dollar amount paid/payable (included in Other expenses) that fell within the following bands:	2020 No.	2020 $'000	2019 No.	2019 $'000
Below $10 000	-	-	2	12
$10 000 or above	5	143	2	48
Total	**5**	**143**	**4**	**60**

NOTE 13 Auditor's remuneration

	2020 $'000	2019 $'000
Audit fees paid/payable to the Auditor-General's Department relating to work performed under the *Public Finance and Audit Act 1987*	183	158
Total	**183**	**158**

No other services were provided by the Auditor-General's Department.
The amount disclosed includes GST amounts non-recoverable from the ATO.

NOTE 14 Financial investments

See accounting policy in note 2.5.2.1.

	2020 $'000	2019 $'000
SAFA Cash Management Fund (Wyatt)	855	962
Total financial investments	**855**	**962**

The financial investments listed above are at call. Information in relation to HomeStart's exposure to investment price risk is provided in note 31.4.3.

NOTE 15 Loans and advances

15 Loans and advances	2020 $'000	2019 $'000
Loans and advances at amortised cost	2,059,783	2,078,577
Loans and advances at FVTPL	127,874	129,538
Total loans and advances	**2,187,657**	**2,208,115**

15.1 Loans and advances at amortised cost	2020 $'000	2019 $'000
Primary loans	1,989,851	2,004,490
Subsidised loans	111,676	113,041
Gross loans and advances	**2,101,527**	**2,117,531**
Fair value adjustment	(8,850)	(10,639)
Deferred loan fee income	(11,568)	(11,288)
Deferred loan fee expense	4,043	3,732
Unearned income on impaired loans	(1,982)	(2,170)
Provision for credit impairment specific	(7,839)	(8,230)
Provision for credit impairment collective	(15,548)	(10,359)
Total loans and advances at amortised cost	**2,059,783**	**2,078,577**

See accounting policy in note 2.5.3.1.

	2020 $'000	2019 $'000
Stage 3 Specific provision - Lifetime Expected Credit Losses (ECL)	**(7,839)**	**(8,230)**
Stage 3 Collective provision - Lifetime ECL	(770)	(658)
Stage 2 Collective provision - Lifetime ECL	(9,490)	(5,538)
Stage 1 Collective provision - 12-months ECL	(5,288)	(4,163)
Total Collective provision for impaired loans	**(15,548)**	**(10,359)**
Total provision for credit impairment	**(23,387)**	**(18,589)**

	2020					
	Stage 1 Collective Provision 12-months ECL $'000	Stage 2 Collective Provision Lifetime ECL not credit impaired $'000	Stage 3 Collective Provision Lifetime ECL credit impaired $'000	Collective Provision (1) $'000	Stage 3 Specific provision Lifetime ECL credit impaired $'000	Total $'000
Balance at beginning of year	4,163	5,538	658	-	8,230	18,589
Changes due to financial assets recognised in the opening balance that have:	-	-	-	-	-	-
-Transferred to 12-months ECL - collective provision	2,299	(2,279)	(19)	-	(1)	-
-Transferred to Lifetime ECL not credit impaired - collective provision	(428)	630	(202)	-	-	-
-Transferred to Lifetime ECL credit impaired - collective provision	(4)	(32)	36	-	-	-
-Transferred to Lifetime ECL credit impaired - specific provision	(61)	(107)	(8)	-	176	-
New and increased provisions (net of releases)	(681)	5,740	305	-	4,083	9,447
Write-backs of specific provisions	-	-	-	-	(2,934)	(2,934)
Write-offs from specific provisions	-	-	-	-	(1,715)	(1,715)
Balance at end of year	**5,288**	**9,490**	**770**	**-**	**7,839**	**23,387**

Collective Provision Sensitivity Analysis

The uncertainty of the impact of COVID-19 introduced significant estimation uncertainty in relation to the measurement of the HomeStart's collective provision. The rapidly evolving consequences of COVID-19 could result in significant adjustments to the collective provision within the current and next financial years. A summary of the key estimates and analysis of the sensitivities of the collective provision to changes in these assumptions is set out in the following tables.

	Base	Good	Bad
Scenario weights	55%	5%	40%
Loss Given Default (weighted average)	11%	11%	13%
Other key variables			
- Roll rate increase/decrease	-	(10%)	50%

The table below illustrates the sensitivities of the collective provision to each economic scenario:

	Total collective provision $'000	Impact $'000
100% Base	13,803	(1,745)
100% Good	13,568	(1,981)
100% Bad	18,196	2,647

15.2 Loans and advances at fair value through profit or loss	2020 $'000	2019 $'000
Breakthrough Loan (shared appreciation component)	43,675	48,954
Shared Equity Option Loan (shared appreciation component)	5,414	3,677
Seniors Equity Loan	78,785	76,907
Total loans and advances at fair value through profit or loss	**127,874**	**129,538**

All loans and advances at fair value through profit or loss have a maturity of longer than five years.
See accounting policy in note 2.5.3.2. Information in relation to HomeStart's exposure to property price and interest rate risk is provided in notes 31.4.4 and 31.4.5.

NOTE 16 Other financial assets

	2020 $'000	2019 $'000
Accrued interest on housing loans and advances	247	407
EquityStart grant receivable	-	96
GST recoverable	33	31
Other	37	146
Total other financial assets	**317**	**680**

NOTE 17 Intangible assets

See accounting policy in note 2.5.4.2.

	2020 $'000	2019 $'000
Software at cost	10,901	9,284
Accumulated amortisation	(5,857)	(4,911)
Total intangible assets	**5,044**	**4,373**
Carrying amount at 1 July	**4,373**	**3,076**
Additions	1,617	1,940
Amortisation	(946)	(643)
Carrying amount at 30 June 2020	**5,044**	**4,373**

NOTE 18 Property, plant and equipment

	2020 $'000	2019 $'000
Leasehold improvements		
Leasehold improvements at cost (deemed fair value)	2,743	3,143
Accumulated amortisation	(1,350)	(1,231)
Total leasehold improvements	**1,393**	**1,912**
Other office and computer equipment		
Other office and computer equipment at cost (deemed fair value)	3,019	2,613
Accumulated depreciation	(2,180)	(1,917)
Total other office and computer equipment	**839**	**696**
Right of use buildings		
Right of use buildings (deemed fair value)	9,831	-
Accumulated depreciation	(3,348)	-
Total right of use buildings	**6,483**	**-**
Right of use motor vehicles		
Right of use motor vehicles (deemed fair value)	64	-
Accumulated depreciation	(41)	-
Total right of use motor vehicles	**23**	**-**
Total property, plant and equipment	**8,738**	**2,608**

Reconciliation of property, plant and equipment

The following table shows the movement of property, plant and equipment during the year:

	Leasehold improvements $'000	Other office and computer equipment $'000	Right of use buildings $'000	Right of use motor vehicles $'000	Total $'000
Carrying amount at 30 June 2018	**2,227**	**522**	**-**	**-**	**2,749**
Additions – at cost (deemed fair value)	-	399	-	-	399
Disposals – at cost (deemed fair value)	-	(549)	-	-	(549)
Disposals – accumulated depreciation	-	544	-	-	544
Depreciation and amortisation	(315)	(220)	-	-	(535)
Carrying amount at 30 June 2019	**1,912**	**696**	**-**	**-**	**2,608**
Additions – at cost (deemed fair value)	-	419	157	20	596
ROU Assets recognised at transition to AASB16	-	-	6,768	21	6,789
Reclassification	(243)	-	243	-	-
Disposals – at cost (deemed fair value)	-	(13)	-	-	(13)
Disposals – accumulated depreciation	-	13	-	-	13
Depreciation and amortisation	(276)	(276)	(685)	(18)	(1,255)
Carrying amount at 30 June 2020	**1,393**	**839**	**6,483**	**23**	**8,738**

All items of property, plant and equipment that had a fair value at the time of acquisition less than $1.5 million ($1.5 million, 2018-19) and had an estimated useful life less than three years, has not been revalued in accordance with Accounting Policy Statement 116.D. The carrying value of these items are deemed to approximate fair value.

HomeStart's operating leases are for office accommodation and motor vehicles. The office leases are non-cancellable with terms ranging up to 10 years with all leases having the right of renewal. Rent is payable monthly in advance. The motor vehicle leases are non-cancellable with terms of 3 years.

NOTE 19 Other assets

	2020 $'000	2019 $'000
Prepayments	392	447
Total other assets	**392**	**447**

NOTE 20 Fair value measurement of non-financial assets

In determining fair value, HomeStart has taken into account the characteristic of the asset (e.g. condition and location of the asset and any restrictions on the sale or use of the asset), and the asset's highest and best use (that is physically possible, legally permissible, financially feasible).

HomeStart's current use is the highest and best use of the asset unless other factors suggest an alternative is feasible. As HomeStart did not identify any factors to suggest an alternative use, fair value measurement was based on current use.

The carrying amount of non-financial assets with a fair value at the time of acquisition that was less than $1.5 million ($1.5 million, 2018-19) and had an estimated useful life less than three years, are deemed to approximate fair value.

The fair value of non-financial assets must be estimated for recognition and measurement or for disclosure purposes. HomeStart categorises non-financial assets measured at fair value into the fair value hierarchy based on the level of inputs used in measurement as follows:

Fair value measurements at 30 June 2020

Recurring Fair Value Measurements	2020 $'000	Level 3 $'000
Leasehold improvements	1,393	1,393
Other office and computer equipment	839	839
Right of use buildings	6,483	6,483
Right of use motor vehicles	23	23
Total recurring fair value measurements	**8,738**	**8,738**

Fair value measurements at 30 June 2019

Recurring Fair Value Measurements	2019 $'000	Level 3 $'000
Leasehold improvements	1,912	1,912
Other office and computer equipment	696	696
Total recurring fair value measurements	**2,608**	**2,608**

HomeStart's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period. During 2020 and 2019, HomeStart had no non-financial asset valuations categorised into level 1 and 2.

Valuation techniques and inputs

Unobservable inputs were used in determining fair value, refer to note 18, and they are subjective. HomeStart considers that the overall valuation would not be materially affected by changes to the existing assumptions. There were no changes in valuation techniques during 2020 and 2019. The following table is a reconciliation of fair value measurements using significant unobservable input (level 3).

Reconciliation of Level 3 recurring fair value measurements as at financial year-end

Property, plant and equipment	2020 $'000	2019 $'000
Opening balance at the beginning of the period	**2,608**	**2,749**
Acquisitions	596	399
ROU Assets recognised at transition to AASB16	6,789	-
Disposals	-	(5)
Depreciation	(1,255)	(535)
Carrying amount at the end of the period	**8,738**	**2,608**

NOTE 21 Payables

	2020 $'000	2019 $'000
Trade payables	590	656
Accrued administration expenses	382	597
Employment on-costs*	403	370
Accrued interest payable on borrowings	326	1,330
Accrued interest payable on derivatives	108	92
Accrued guarantee fee payable	827	1,205
Accrued loan manager fees	-	379
Total payables	**2,636**	**4,629**

*Employment on-costs include payroll tax and superannuation contributions and are settled when the respective employee benefits that they relate to is discharged. Employee benefits liabilities are disclosed in note 23.

HomeStart makes a contribution to several SA 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 respective superannuation schemes. The only liability outstanding at reporting date relates to any contributions due but not yet paid to the South Australian Superannuation Board and other externally managed superannuation schemes.

Payables and accruals are raised for all amounts owing but unpaid. Sundry payables are normally settled within 30 days from the date the invoice is first received. All payables are non-interest bearing. The carrying amount of payables represents fair value due to the amounts due to their short-term nature.

NOTE 22 Borrowings and leases

Interest bearing liabilities

Short-term borrowings payable	2020 $'000	2019 $'000
Short-term borrowings	650,492	768,430
Short-term lease liabilities	659	-
Total short-term borrowings	**651,151**	**768,430**
Long-term borrowings payable		
Long-term borrowings	1,372,000	1,272,000
Long-term lease liabilities	7,480	-
Total long-term borrowings	**1,379,480**	**1,272,000**
Total interest bearing liabilities	**2,030,631**	**2,040,430**

All HomeStart borrowings are unsecured.
Information in relation to HomeStart's exposure to liquidity and interest rate risks is provided in notes 31.3 and 31.4.2 respectively.

Leases - Amounts recognised in profit or loss

	2020 $'000
Expenses relating to short-term leases	39
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	-

Leases - Amounts recognised in statement of cash flows

	2020 $'000
Total cash outflow for leases	879

Maturity analysis of lease liabilities

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after reporting date:

	2020 $'000
Within one year	669
Later than one year but not later than five years	2,948
Later than five years	4,532
Total	**8,149**

Extension options

Some property leases contain extension options exercisable by HomeStart up to one year before the end of the non-cancellable contract period. Where practicable, HomeStart seeks to include extension options in new leases to provide operational flexibility.
HomeStart assessed at lease commencement date whether it is reasonably certain to exercise the option. HomeStart reassesses whether it is reasonably certain to exercise the option if there is a significant event or change in circumstances within its control. On commencement HomeStart assessed that it was reasonably certain to exercise each available option, hence the periods are included within the lease liability recognised on transition. There are no potential future lease payments for extension options not included within the lease liability.

Commitments
Commitments under cancellable and non-cancellable operating leases contracted at the reporting date but not recognised as liabilities are payable as follows:

	2020 $'000	2019 $'000
Within one year	7	981
Later than one year but not later than five years	-	3,773
Later than five years	-	1,007
Total	**7**	**5,761**
Representing:		
Non-cancellable operating leases	7	5,761
Cancellable operating leases	-	-
Total	**7**	**5,761**

NOTE 23 Employee benefits liability

	2020 $'000	2019 $'000
Accrued salaries	281	198
Annual leave	682	530
Long service leave	1,474	1,509
Total employee benefits	**2,437**	**2,237**

Long service leave liability - measurement

AASB 119 *Employee Benefits* contains the calculation methodology for long service leave liability.
The actuarial assessment performed by the Department of Treasury and Finance has provided a basis for the measurement of long service leave and is based on actuarial assumptions on expected future salary and wage levels, experience of employee departures and periods of service. These assumptions are based on employee data over SA Government entities.

AASB 119 Employee Benefits requires the use of the yield on long-term Commonwealth or State Government bonds as the discount rate in the measurement of the long service leave liability. The yield on long-term corporate bonds has decreased from 2019 (1.25%) to 2020 (0.75%).

The actuarial assessment performed by the Department of Treasury and Finance decreased the salary inflation rate to 2.5% for long service leave liability.

The net financial effect of the above changes in the current financial year is an increase in the long service leave liability of $129k and employee benefits expense of $141k. The impact on future periods is impractical to estimate as the long service leave liability is calculated using a number of demographical and financial assumptions – including the long-term discount rate.

NOTE 24 Provisions

24.1 Provision for income tax	2020 $'000	2019 $'000
Income tax equivalent payable	4,265	3,857
Total income tax equivalents payable	**4,265**	**3,857**

24.2 Provision for dividend	2020 $'000	2019 $'000
Dividend payable	1,205	1,694
Total provision for dividend	**1,205**	**1,694**

Pursuant to Section 26 of the *Urban Renewal Act 1995*, HomeStart must recommend to the Minister for Transport, Infrastructure and Local Government, that it pays 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 2020, the Board of HomeStart recommended the payment of a dividend of 100% of after tax profit (100%, 2018-19). Based on the expected profit for the year, this amounted to a total dividend of $20.7 million in respect of the year ended 30 June 2020 ($14.6 million, 2018-19). The Minister and Treasurer approved the recommendation and the estimated amount was paid in June 2020.

The actual dividend based on the payout ratio of 100% of actual after tax profit was $21.8 million. HomeStart paid a dividend amount of $20.7 million to the Department of Treasury and Finance prior to the end of the financial year ($14.6 million, 2018-19). The amount of dividend payable of $1.2 million is disclosed in note 24 as provision for dividend. HomeStart will pay this residual dividend amount of $1.2 million in respect of the financial year ended 30 June 2020 in June 2021 ($1.7 million, 2018-19).

NOTE 25 Other liabilities

25.1 Other liabilities	2020 $'000	2019 $'000
Workers compensation provision	41	41
Wyatt Benevolent Institution	2,190	2,331
Affordable Housing Fund (Starter Loan)	555	-
Operating lease liability	-	1,288
Make good provision	400	400
City of Salisbury	4	4
Total other liabilities	**3,190**	**4,064**

25.2 Unearned income (EquityStart grant)	2020 $'000	2019 $'000
Opening Balance	**-**	**776**
Amounts received/receivable	34	567
Amount recognised as earned	(34)	(1,343)
Closing balance	**-**	**-**

AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* requires that government grants related to costs be recognised in the Statement of Comprehensive Income over the period necessary to match them with the costs that they are intended to compensate.

25.3 Make good provision	2020 $'000	2019 $'000
Opening Balance	**400**	**400**
Revaluation of provision	-	-
Charges against provision	-	-
Unwinding of discount arising from the passage of time	-	-
Closing balance	**400**	**400**

NOTE 26 Equity

26.1 General reserve for credit losses

A general reserve for credit losses was created within equity. 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. Amounts in the general reserve for credit losses will not be reclassified to profit or loss.

26.2 Derivatives valuation reserve

The derivatives valuation reserve was created to recognise the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges. When a derivative financial instrument that was previously considered to be effective no longer satisfies the effectiveness test criteria, the gain or loss on the instrument previously recognised in the derivatives valuation reserve remains in equity until the forecast transaction affects the profit or loss. If the forecast transaction is no longer expected to occur, it is reclassified to the profit or loss as a reclassification adjustment.

NOTE 27 Unrecognised contractual commitments

27.1 Capital commitments

Capital expenditure contracted for at the reporting date, but not recognised as liabilities in the financial report, are payable as follows:

	2020 $'000	2019 $'000
Within one year	105	30
Later than one year but not later than five years	-	-
Later than five years	-	-
Total capital commitments	**105**	**30**

Capital expenditure commitments are for upgrades of operational systems.

27.2 Expenditure commitments - software licence commitments

Software licence expenditure contracted for at the reporting date but not recognised as liabilities in the financial report, are payable as follows:

	2020 $'000	2019 $'000
Within one year	123	454
Later than one year but not later than five years	246	14
Later than five years	-	-
Total commitments	**369**	**468**

HomeStart's notable software licence commitments in 2020 and 2019 are in relation to the Front End Loan System and Microsoft software suite.

27.3 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 $74.2 million ($70.1 million, 2018-19).

Since many of the commitments are expected to expire without being drawn down, the total commitment amounts do not necessarily represent future cash requirements. Nevertheless, credit-related commitments are considered "at call" for liquidity management purposes.

The redraw facilities at balance date amount to $67.2 million ($66.6 million, 2018-19).

NOTE 28 Contingent assets and liabilities

HomeStart is not aware of any material contingent assets or liabilities that exist at the reporting date.

NOTE 29 Related parties

HomeStart is controlled by the SA Government. Related parties of HomeStart include all key management personnel and their close family members and all public authorities that are controlled and consolidated into the whole of government financial statements and other interests of the Government.

During the financial year, HomeStart undertook transactions with the following related parties:

- SA Housing Authority
- Department of Planning, Transport and Infrastructure
- Department of Treasury and Finance
- SAFA.

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

Note 8 key management personnel details other related party disclosures, including key management personnel compensation and board and committee remuneration.

NOTE 30 Cash flow reconciliation

30.1 Reconciliation of cash and cash equivalents - cash at the end of the reporting period:	2020 $'000	2019 $'000
Cash and Cash equivalents disclosed in the Statement of Financial Position	4,235	3,145
Balance as per Statement of Cash Flows	**4,235**	**3,145**

See accounting policy in note 2.5.1.

30.2 Reconciliation of profit for the year to net cash provided by operating activities	2020 $'000	2019 $'000
Profit for the year	**21,855**	**16,301**
Add/less non cash items		
Depreciation and amortisation expense of non-financial assets	2,202	1,178
Unrealised change in fair value of loans	(450)	494
Bad debts written-off	1,796	1,499
Fees applied directly to loan accounts	(4,082)	(5,369)
Movement in assets and liabilities		
(Decrease) increase in provision for impairment	4,798	(30)
(Decrease) increase in deferred loan fee income	280	1,499
(Increase) decrease in deferred loan fee expense	(311)	(533)
(Decrease) increase in fair value adjustment	(1,789)	(379)
(Decrease) increase in payables	(1,233)	(116)
(Decrease) increase in provision for employee benefits	198	(96)
(Decrease) increase in other liabilities	-	(776)
(Decrease) increase in income tax equivalents payable	407	950
(Increase) decrease in financial and other assets	363	(18)
Net cash provided by operating activities	**24,034**	**14,604**

30.3 Reconciliation of liabilities arising from financing activities to financing cash flows

	Liabilities			Equity	
	Short-term borrowings	Long-term borrowings	Provision for Dividend	Retained Earnings	Total
Opening balance at 1 July 2018	**250,797**	**1,647,000**	**212**	**155,335**	**2,053,344**
Changes from financing cash flows					
Proceeds from borrowings	-	200,000	-	-	200,000
Dividends paid to SA Government	-	-	1,482	(16,301)	(14,819)
Repayment of borrowings	(57,367)	-	-	-	(57,367)
Reclassification from long term to short term	575,000	(575,000)	-	-	-
Total changes from financing cash flows	**517,633**	**(375,000)**	**1,482**	**(16,301)**	**127,814**
Total equity-related other changes	-	-	-	17,079	17,079
Closing balance at 30 June 2019	**768,430**	**1,272,000**	**1,694**	**156,113**	**2,198,237**
Changes from financing cash flows					
Proceeds from borrowings	-	100,000	-	-	100,000
Dividends paid to SA Government	-	-	(489)	(21,855)	(22,344)
Repayment of leases	(608)	-	-	-	(608)
Repayment of borrowings	(117,938)	-	-	-	(117,938)
Total changes from financing cash flows	**(118,546)**	**100,000**	**(489)**	**(21,855)**	**(40,890)**
Non financing cash flow movements in lease liabilities	1,267	7,480	-	(545)	8,202
Total equity-related other changes	-	-	-	18,445	18,445
Closing balance at 30 June 2020	**651,151**	**1,379,480**	**1,205**	**152,158**	**2,183,994**

NOTE 31 Financial risk management

31.1 Overview

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

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

This note presents information about HomeStart's exposure to each of the above risks as well as HomeStart's objectives, policies and processes for measuring and managing risk. Taking risk is core to HomeStart's business. HomeStart aims to achieve an appropriate balance between risk and return.

HomeStart's Board of Directors 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. In addition, a Board Credit Sub-Committee has been formed to review and recommend approval of individual loan applications which will result in an aggregate exposure to the borrower that exceeds $1.5 million.

HomeStart's risk management policies are designed to identify, monitor and manage financial risks. HomeStart regularly reviews its risk management policies and systems to reflect changes in markets, products and the environment in which the organisation operates.

Financial risk management is the responsibility of HomeStart's internal Finance department and is undertaken within policies approved by the Board and its sub-committees.

HomeStart's Board has delegated responsibility for monitoring compliance and adequacy of risk management policies and frameworks to the Audit Committee, which is assisted by Internal Audit in discharging these functions. 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, particularly financial risk.

HomeStart's exposures to financial risk and associated processes have not changed materially from the previous period.

31.2 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will cause HomeStart to incur a financial loss by failing to discharge an obligation. HomeStart's exposure to credit risk arises primarily from loans and advances to customers.
As described below, HomeStart manages its credit risk by dealing with 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, Audit Committee, ALCO and Board Credit Sub-Committee.

The authority to make credit decisions in accordance with 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 compliance 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 expenses, and include independent credit checks. HomeStart does not rely on reduced documentation or self-verification of income by borrowers.

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 enforced is held as mortgagee in possession. Any property thus held does not meet the recognition criteria of Australian Accounting Standards and is not recognised in the Statement of Financial Position.

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

	2020	2019
Past due but not specifically impaired	**\$'000**	**\$'000**
Gross carrying value	85,668	81,941
Fair value of collateral	132,657	127,023
Specifically Impaired		
Gross carrying value, before specific provision for impairment	50,983	46,659
Unearned income on impaired loans	(1,982)	(2,170)
Lifetime ECL credit impaired - specific provision	(7,839)	(8,230)
Net loans and advances under specific provision	**41,162**	**36,259**
Fair value of collateral	54,419	49,996

Concentration of counterparty and geographic risk

HomeStart is not materially exposed to any individual customer. HomeStart is restricted under the Housing and Urban Development (Administrative Arrangements) (HomeStart Finance) Regulations 2007 to only lend in South Australia and is therefore exposed to the property market in this state.

Approximately 17% (22%, 2018-19) of HomeStart's loans by value are secured against properties outside the Adelaide metropolitan area.

Lending in country areas carries specific risks around market liquidity, local economic conditions and limited population growth. These risks are managed through geographic loan to value ratio (LVR) controls.

At reporting date, 33% (33%, 2018-19) of HomeStart's loans by value were secured against properties in the City of Salisbury and the City of Playford.

Higher LVR loans

HomeStart has products where the initial LVR is permitted to exceed 95% (higher LVR loans), primarily through the Graduate Loan product. 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 may, 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.

HomeStart measures Breakthrough and Shared Equity Option Loans at fair value through profit or loss. The credit risk attaching to the shared appreciation component of the Breakthrough and Shared Equity Option Loans are 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 $2.060 billion ($2.079 billion, 2018-19).

The following tables set out the carrying value of loans and advances to customers which are measured at amortised cost.

	2020					2019
	Stage 1 Collective Provision 12-months ECL	Stage 2 Collective Provision Lifetime ECL not credit impaired	Stage 3 Collective Provision Lifetime ECL credit impaired	Stage 3 Specific provision Lifetime ECL credit impaired	Total	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Low risk	1,377,043	232,891	2,776	23,329	1,636,039	1,488,160
Moderate risk	248,507	118,821	2,213	15,859	385,400	533,268
High risk	34,360	35,233	834	9,662	80,089	96,103
Gross loans and advances	**1,659,910**	**386,945**	**5,823**	**48,850**	**2,101,528**	**2,117,531**
Fair value adjustment					(8,850)	(10,639)
Deferred loan fee income					(11,568)	(11,288)
Deferred loan fee expense					4,043	3,732
Unearned income on impaired loans					(1,982)	(2,170)
Provision for credit impairment					(23,388)	(18,589)
Net loans and advances					**2,059,783**	**2,078,577**

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

	2020	2019
	$'000	$'000
<30 days	66,029	63,675
30 – 59 days	10,173	9,058
60 – 89 days	3,015	2,909
90 – 179 days	3,654	4,240
>179 days	2,797	2,059
Total	85,668	81,941

(1) Loans and advances renegotiated

HomeStart's 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 reviewed periodically. HomeStart may reduce the required loan repayment due to financial difficulties of a customer provided the projected loan term is within normal lending criteria.

The gross carrying amount of loans that have been renegotiated under these criteria within the last 12 months that may otherwise be past due or impaired totalled $4.2 million as at 30 June 2020 ($4.8 million, 2018-19).

(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.

The contractual amount outstanding on loans and advances that have been written off, but were still subject to enforcement activity was $2.3 million as at 30 June 2020 ($2.1 million, 2018-19).

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 2020 and 30 June 2019, HomeStart did not have any exposure to credit risk arising from derivative financial liabilities.

	2020 $'000	2019 $'000
Derivative financial instruments	**(4,449)**	**(4,202)**
Swap income receivable	7	108
Swap expense payable	(116)	(200)
Net payable (note 21.1)	**(109)**	**(92)**

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 Treasury Policies which are subject to oversight by ALCO.

HomeStart's liquidity management process is carried out and monitored by HomeStart's internal Finance department and includes daily cash management and forecasting.

Whole of government policy requires that HomeStart holds a positive balance in its operating bank account, and HomeStart manages cash each day to a target range.

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 $2.460 billion as at 30 June 2020 ($2.197 billion, 2018-19).

31.3.3 Exposure to liquidity risk

(a) *Non-derivative cash flows*

HomeStart's exposure to liquidity risk is managed by adherence to ALCO approved ratios and requirements, which include a requirement that HomeStart's debt, subject to refinancing in the next 12 month period, is to be limited to 40% in 2020 (40%, 2018-19) of total debt outstanding.

% of debt subject to refinancing in the next 12 month period	**2020**	**2019**
At 30 June	32.16%	37.70%
Average for the period	13.72%	32.80%
Maximum for the period	32.16%	46.10%
Minimum for the period	4.92%	13.80%

Temporary ALCO approval was granted in February 2019 to exceed the 40% internal short term funding limit until the debt was restructured in June 2019.

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

2020 Liabilities	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
Payables	2,636	-	-	-	-	2,636	2,636
Borrowings and leases	103,296	6,286	575,922	1,187,726	259,648	2,132,878	2,030,631
Other financial liabilities	-	2,132	3,338	-	-	5,470	5,470
Total liabilities (contractual maturity dates)	**105,932**	**8,418**	**579,260**	**1,187,726**	**259,648**	**2,140,984**	**2,038,737**

2019 Liabilities	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
Payables	4,629	-	-	-	-	4,629	4,629
Borrowings	198,171	308,965	306,530	1,237,681	100,260	2,151,607	2,040,430
Other financial liabilities	-	1,929	3,622	-	-	5,551	5,551
Total liabilities (contractual maturity dates)	**202,800**	**310,894**	**310,152**	**1,237,681**	**100,260**	**2,161,787**	**2,050,610**

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

(b) *Derivative cash flows*

Derivatives used by HomeStart to hedge interest rate risk primarily include interest rate swaps.

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	Carrying value $'000
2020	(249)	(151)	(1,579)	(2,448)	(18)	(4,445)	(4,449)
2019	(192)	(386)	(1,376)	(2,245)	(260)	(4,459)	(4,202)

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 27.

31.4 Market Risk

Market risk is the risk of changes in market prices such as interest rates, 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.

31.4.1 Market risk management

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

A comprehensive Treasury Policy sets out the policies which govern HomeStart's management of market risk. Adherence to these policies is monitored by ALCO at its monthly meetings and by the Finance 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

(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.

HomeStart receives a fixed rate of interest on a portion of its loans to customers and pays floating interest on borrowings from SAFA. HomeStart enters into interest rate swap contracts in order to hedge this mismatch of cash flows.

As at 30 June 2020, HomeStart had floating/fixed swaps with a notional value of $252.0 million ($245.5 million, 2018-19) with fixed rates varying between 0.13% and 5.98% (0.96% and 6.12%, 2018-19).

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

(b) *Market rate risk*

HomeStart management monitor interest rate risk on a weekly basis. The monitoring includes:

- reviewing and comparing the level of maturity of interest rate swaps and the underlying fixed rate loan transactions
- identifying the level of unhedged portfolio generated through additional lending activity, fixed rate loan expiry and interest rate loan expiry
- reviewing interest rate swaps expiries and entering into further interest rate swaps arrangements to cover the mismatch in cash flows.

ALCO monitor this process on a monthly basis.

(c) *Hedge accounting*

Variable rate debt used to fund fixed rate loans to customers is hedged by interest rate swaps, which have been designated as cash flow hedges, enabling 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 designates the instrument into a hedge relationship and satisfies the 'hedge accounting' requirements contained in AASB 9 Financial Instruments.

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 2020, a $0.2m loss ($1.8 million loss, 2018-19) was recognised in equity during the period.

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

31.4.3 Investments price risk

(a) *Risk control and mitigation policies*

HomeStart is exposed to investment price risk arising from investments held by HomeStart and classified in the Statement of Financial Position at amortised cost.

(b) *Maximum exposure to investments price risk*

HomeStart's maximum exposure to investments price risk has been recognised as the carrying amount at reporting date (note 14).

(c) *Sensitivity analysis*

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

2020	**Carrying amount $'000**	**-10% $'000**	**+10% $'000**
SAFA Cash Management Fund (Wyatt)	855	(85)	85
Total increase/(decrease) in profit before tax and equity	**855**	**(85)**	**85**

2019	**Carrying amount $'000**	**-10% $'000**	**+10% $'000**
SAFA Cash Management Fund (Wyatt)	962	(96)	96
Total increase/(decrease) in profit before tax and equity	**962**	**(96)**	**96**

31.4.4 Breakthrough and Shared Equity Option Loan property price risk

(a) *Risk control and mitigation policies*

HomeStart is exposed to property price risk arising from the shared appreciation component of Breakthrough and Shared Equity Option 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 2.5.3.2).

To manage its price risk arising from Breakthrough and Shared Equity Option Loans, HomeStart limits the total size of the Breakthrough and Shared Equity Option Loan portfolio and the geographic locations where lending is undertaken.

To manage its price risk associated with the "no negative equity" guarantee component within the Seniors Equity loans, HomeStart sets a very low loan to value ratio (LVR) and undertakes periodic portfolio analysis to ascertain cross over risk.

(b) *Maximum exposure to property price risk*

HomeStart's maximum exposure to property price risk has been recognised as the carrying amount at balance date (note 15.2).

(c) *Sensitivity analysis*

The following table summarises the sensitivity of HomeStart's profit to movements in the values of properties used as collateral for a Breakthrough and Shared Equity Option 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.

	2020 Carrying amount $'000	-5%	+5%	2019 Carrying amount $'000	-5%	+5%
Breakthrough Loan	43,675	(2,727)	2,816	48,954	(3,028)	3,168
Shared Equity Option Loan	5,414	(271)	271	3,677	(207)	160
Total increase/(decrease) in profit before tax and equity		**(2,998)**	**3,087**		**(3,235)**	**3,328**

31.4.5 Seniors Equity loans property price risk and interest rate risk

(a) *Risk controls and mitigation policies*

HomeStart is exposed to property price and interest rate risk arising from the Seniors Equity loans due to the "no negative equity" guarantee feature of the loan

The fair value of these loans is determined based on valuation by applying assumptions around mortality, property value and interest rates at balance date and throughout the life of the loan (note 2.5.3.2).

Maximum LVRs are set by borrower age in order to manage the unique risks of this product.

(b) *Maximum exposure to property price risk and interest rate risk*

HomeStart's maximum exposure to property price risk and interest rate risk has been recognised as the carrying amount at balance date (note 16).

(c) *Sensitivity analysis*

The fair value of Seniors Equity loans is most sensitive to the expected property prices and interest rates over the life of the loan.

For the year ended 30 June 2020, the profit before tax and equity are not expected to materially change as a result of a reasonably possible change in property prices and interest rates.

31.4.6 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 fair value of assets or liabilities traded in active markets are based on quoted market prices for identical assets or liabilities at balance date. The fair value of other financial assets or liabilities is determined using valuation techniques, using observable market data where available, and assumptions based on market conditions as appropriate.

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.

		2020		2019	
Financial assets	**Category**	**Carrying value $'000**	**Fair value $'000**	**Carrying value $'000**	**Fair value $'000**
Cash and cash equivalents	N/A	4,235	4,235	3,145	3,145
Investments	Amortised cost	855	855	962	962
Loans and advances [1]	Amortised cost	2,059,783	2,062,185	2,078,577	2,079,011
Loans and advances	FVTPL	127,874	127,874	129,538	129,538
Other financial assets	Amortised cost	317	317	680	680
Total financial assets		**2,193,064**	**2,195,466**	**2,212,902**	**2,213,336**
Financial liabilities					
Borrowings and Leases [2]	Amortised cost	2,030,631	2,035,986	2,040,430	2,046,973
Derivative financial instruments	Hedge accounting (fair value through OCI)	4,449	4,449	4,202	4,202
Payables	Amortised cost	2,636	2,636	4,629	4,629
Income tax equivalents payable	Amortised cost	4,265	4,265	3,857	3,857
Provision for dividend	Amortised cost	1,205	1,205	1,694	1,694
Other liabilities	Amortised cost	3,190	3,190	4,064	4,064
Total financial liabilities		**2,046,376**	**2,051,731**	**2,058,876**	**2,065,419**
Net financial assets		**146,688**	**143,735**	**154,026**	**147,917**

[1]The loans and advances fair value adjustment relates to the fixed interest rate loans portfolio which has been classified as level 3 in the fair value hierarchy. As at balance date, the amortised cost is determined by discounting the expected future cash flows by the current interest rate that would apply to those cash flows based on their remaining term. For loans where the fixed interest rate exceeds the current interest rate, the amortised cost will exceed the face value of the loans.

[2]The fair value of borrowings is determined using SAFA market valuation, which is classified as level 2 in the fair value hierarchy.
The market value by SAFA was calculated using mid rates as at close of business 30 June 2020.

32.2 Fair value and categorisation of financial instruments

(a) *Derivatives*

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

(b) *Loans and advances to customers*

The fair value of 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 at market rate. Subsidised loans are discounted using a risk free rate of interest, based on four and seven year (for Advantage Loans) and ten year (for EquityStart Loans) SAFA bonds. Refer note 2.3.2.

(c) *Investments*

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

(d) *Shared appreciation component of the Breakthrough and Shared Equity Option Loan*

Note 2.5.3.2 describes the accounting policy adopted in relation to the shared appreciation component of the Breakthrough and Shared Equity Option Loans.

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.

An estimated 93.1% of these loans are revalued using Hometrack valuations, which is consistent with the prior year.

(e) *Seniors Equity Loan*
The fair value of the Seniors Equity Loans is estimated by management based on analysis of portfolio expected mortality rates, property prices and interest rates over the life of the loans.

(f) *Borrowings*
HomeStart reports fair value of its borrowings based on the valuation undertaken by SAFA who is the sole provider of funds to HomeStart.

32.3 Hierarchical classification of financial assets measured at fair value

Refer to note 2.8 for further detail on the fair value hierarchy and measurement.

2020	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets measured at fair value				
Loans and advances at FVTPL	-		127 874	127 874
Total financial assets measured at fair value	**-**	**-**	**127 874**	**127 874**
Financial liabilities measured at fair value				
Derivative financial instruments	-	(4 449)	-	(4 449)
Total financial liabilities measured at fair value	**-**	**(4 449)**	**-**	**(4 449)**

2019	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets measured at fair value				
Loans and advances at FVTPL	-	-	129 538	129 538
Total financial assets measured at fair value	**-**	**-**	**129 538**	**129 538**
Financial liabilities measured at fair value				
Derivative financial instruments	-	(4 202)	-	(4 202)
Total financial liabilities measured at fair value	**-**	**(4 202)**	**-**	**(4 202)**

32.4 Reconciliation of Level 3 fair value measurements

	2020 $'000	**2019 $'000**
Fair value at 1 July	**129,538**	**54,361**
Breakthrough Loan discharges	(5,652)	(4,781)
Shared Equity Option Loan settlements	2,081	3,580
Shared Equity Option Loan discharges	(422)	(35)
Seniors Equity Loan reclassified to FVTPL on adoption of AASB 9	-	75,312
Seniors Equity Loan settlements and drawdowns	10,504	9,169
Seniors Equity Loan discharges and payments	(7,595)	(7,574)
Unrealised change in fair value of loans (notes 12 and 5)	450	(494)
Other	(1,030)	-
Fair value at 30 June	**127,874**	**129,538**

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

NOTE 33 Events after the reporting period

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

NOTE 34 COVID-19 pandemic outlook for HomeStart

The COVID-19 pandemic will continue to impact the operations of HomeStart in 2020-21. The key expected impacts are:

- It is expected that weaker economic conditions will make it more difficult for some customers to service their loans, and may lead to a rise in the value of the portfolio entering Stage 3 of the ECL model due to credit impairment. Refer to note 15.1.
- Property prices are expected to remain weak during the year due to the virus and overall economic conditions. Therefore it is expected that the shared equity portfolios will remain weak and may generate realised and unrealised losses.
- The financing of house and land packages represents a significant proportion of HomeStart's new lending at 37% of 2020 total new loans settled. Lending volumes in the future may be driven by external stimulus measures including government grants or other measures.

INDEPENDENT AUDITOR'S REPORT

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To the Chair
HomeStart Finance

Opinion

I have audited the financial report of HomeStart Finance for the financial year ended 30 June 2020.

In my opinion, the accompanying financial report gives a true and fair view of the financial position of HomeStart Finance as at 30 June 2020, its financial performance and its cash flows for the year then ended in accordance with relevant Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act* and Australian Accounting Standards.

The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2020
- a Statement of Financial Position as at 30 June 2020
- a Statement of Changes in Equity for the year ended 30 June 2020
- a Statement of Cash Flows for the year ended 30 June 2020
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Chair, the Deputy Chair, the Chief Executive Officer and the Chief Financial Officer.

Basis for opinion

I conducted the audit in accordance with the *Public Finance and Audit Act 1987* and Australian Auditing Standards. My responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial report' section of my report. I am independent of HomeStart Finance. The *Public Finance and Audit Act 1987* establishes the independence of the Auditor-General. In conducting the audit, the relevant ethical requirements of APES 110 *Code of Ethics for Professional Accountants* (including Independence Standards) have been met.

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

Responsibilities of the Chief Executive Officer and Board for the financial report

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

Auditor's responsibilities for the audit of the financial report

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 27(4) of the *Urban Renewal Act 1995*, I have audited the financial report of HomeStart Finance for the financial year ended 30 June 2020.

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of HomeStart Finance's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive Officer
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

My report refers only to the financial report described above and does not provide assurance over the integrity of electronic publication by the entity on any website nor does it provide an opinion on other information which may have been hyperlinked to/from the report.

I communicated with the Chief Executive Officer and Board about, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identified during the audit.

Andrew Richardson
Auditor-General
24 September 2020

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