2021-22

Annual Report

Government of South Australia

HomeStart FINANCE

23 September 2022
The Hon. Stephen Mullighan MP
Treasurer of South Australia
Parliament House
North Terrace
Adelaide SA 5000

Letter of **Transmittal**

Dear Treasurer,

HomeStart Finance 2021-22 Annual Report

It gives me great pleasure to present a summary of HomeStart's achievements over the 2021-22 financial year.

HomeStart continued to make home ownership a reality for more South Australians in more ways, assisting 1,473 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 **Contents**

Report from the **Chair**

Normal. It's a word we've bandied around over the past two years in relation to a lack of normality, COVID-normal, a new normal, and as the past few months of the financial year have shown – returning towards normal financial conditions with interest rates heading towards a once-normal band.

At HomeStart, we've risen to meet the needs of more South Australians who want to buy their own home during a challenging financial year, but knowing they need support more than ever at a time that really hasn't been that normal at all.

With interest rates at record lows for the majority of the financial year, rental vacancies falling and rents rising, HomeStart provided more options to help people achieve home ownership.

> Bridging the gap between stagnant wages and rising house prices, we were able to help 1,473 households to take that step.

Since 1989 we have made home ownership a reality for more than 81,000 people. As we enter our 33rd year we anticipate that will grow along with the need for products such as our Shared Equity Option, which helps more people afford the house that best suits their needs.

Total lending for the year reached a high $500m, while in a sign of HomeStart's continuing successful market positioning as a stepping stone to home ownership, more than $313m of loans were refinanced to other lenders.

HomeStart's loan portfolio dipped slightly to $2.12bn over the 12 months.

HomeStart generated an underlying profit for the year of $40.7m, slightly below last year's underlying result of $42.7m. HomeStart's underlying earnings reflects the prudent financial and credit management practices of the organisation which has enabled it to remain sustainable through a period of significant economic and social volatility.

Headline earnings were significantly higher than underlying earnings, driven by upwards revaluations to the Shared Equity Option portfolio of $14m and very strong credit conditions. In the future we expect headline earnings to again converge with underlying earnings as these unusual factors return to more sustainable levels. It is a positive reflection on the work of the Board and Executive Team to strengthen the organisation during the COVID period that now, as we enter a new economic cycle, places HomeStart in a stronger position than before. Our return to Government grew by $22.1m to $83.4m, marking a significant contribution to the South Australian economy. HomeStart's direct financial contribution over our 32 years of operation reached $869.1m.

Graduate Loan customers continue to be a driver of new activity and total Graduate lending has now reached almost 7,000 loans worth $2.33bn since the product was first launched 20 years ago. Total Starter Loans, launched in 2019, have now reached 883 including 395 last year.

Shared equity became a topic of national conversation during the year, and our own Shared Equity Option saw the highest level of demand in a decade, reflecting an increasingly unaffordable housing market. HomeStart's Shared Equity Option has what we believe to be the simplest features of any available. It is no surprise other jurisdictions have turned to HomeStart to draw on our fifteen years of experience and innovation with shared equity as they look to create their own solutions.

As the initial impact of government economic stimulus for the home building sector faded, our construction lending fell from 683 loans to a more sustainable 468. HomeStart continues to provide significant support for employment through the sector via our lending activities and valued partnerships with major home builders. Our loans in arrears also fell, reflecting the cooperative way in which we worked with our customers to support them when economic conditions were far from normal.

We continue to appreciate the strong relationship we have with our network of mortgage brokers. Relationships are integral to HomeStart – with our brokers, our customers, between our employees, and with our Executive and Board.

A key governance responsibility, and relationship, for any Board is the role of CEO. For the twelve years until December 2021, HomeStart was successfully led by John Oliver who provided significant experience, leadership and growth for the organisation.

John brought a deep commitment and care for people to the role, with a strong passion for HomeStart's purpose. On behalf of the Board I wish to thank John for his contribution, and he should take pride in the achievements of the organisation.

The Board undertook a wide search for the new CEO and were pleased to appoint Andrew Mills (formerly HomeStart's CFO) to the role from January 2022. The transition to a new generation of leadership has been smooth and effective, ensuring HomeStart remains positioned for success in the future.

With strong foundations, refreshed leadership and the first year of our strategic plan in full swing, HomeStart is ready to meet the future economic normal. We look forward to helping more South Australians in more ways than ever to reach their home ownership goals over the coming year.

Jim Kouts | Chair

Report from the **CEO**

The financial year we've lived through was a year of challenge and opportunity, where HomeStart was able to take important steps forward in delivering our purpose of making home ownership a reality for more people in more ways.

Our headline results for the year were positive, with 1,473 new loans, of which one in seven were first home buyers and 468 were newly built homes. More than 85 per cent of our customers would not have been able to buy their home through a mainstream lender, and our experience in risk management ensured strong credit results, with 59 per cent of loans in advance, and arrears at just 0.38 per cent.

This was the first year of our 2021-24 Strategic Plan, which has a focus on building a contemporary organisation centred around our customers. The plan contains four areas of strategic intent – Customer Experience, Product and Credit Innovation, Culture and Capability, and Technology – I am pleased to report we achieved significant progress across all areas.

Customer experience

- **Online home loan applications launched**
- **New "Home Buyer Ready" online education program**
- **Broker satisfaction score lifted to 92% in June**

Product and credit innovation

- **Expansion of Shared Equity Option to construction, and brokers**
- **Fixed rates available for construction**
- **Advantage Loan expanded**

Culture survey and capability

- **'Pulse' survey engagement highest in four years at 79%**
- **Wellbeing program delivered, with mental health emphasis**
- **Further growth in our constructive culture**

Processes and technology

- **Loanworks selected as our new origination system**
- **Core loan management system upgrade progressed**

The first iteration of our online loan application was launched in July, rapidly capturing almost 30 per cent of applications. Many customers continue to access HomeStart through our network of more than 800 accredited mortgage brokers, who perform a vital role in maximising community access to our products. Through a sustained focus on process improvement, commitment to service standards, and strong teamwork, we were pleased to report record broker satisfaction survey results of 92 per cent in the June quarter.

HomeStart's unique capability for mortgage product design and robust financial foundations enabled us to quickly respond to increasingly unaffordable housing conditions with several targeted product innovations. Most notably, we leveraged our market leading Shared Equity Option by broadening the criteria to construction lending, and improved access for more people by commencing a roll out through our broker network. In response, demand for our Shared Equity Option was the highest in a decade with 114 loans settled.

I continue to be incredibly proud of our entire HomeStart team, who showed significant care and commitment to our customers, business partners and each other over the entire year. Our people capably handled all the disruption and uncertainty we've experienced during the pandemic, changes in leadership, and our ongoing digital transformation, maintaining an empathetic, professional, and collaborative style throughout. This was evident through our Human Synergistics culture survey results, which showed improvements in key areas and particularly the constructive styles we are seeking. Similarly, our Ascender 'Pulse' engagement survey results moved against the global trend with an increase to 79 per cent, ahead of the finance industry benchmark of 76 per cent. My sincere thanks to every single HomeStart employee for all their efforts in the last 12 months.

In December we said farewell to our long-standing former CEO John Oliver as he stepped back from full time corporate life after 12 years of leadership. The strength and resilience of HomeStart through this recent period is a testament to John's legacy. I thank John for his guidance and counsel over the years, and on behalf of the team, wish him well for the future. I also thank HomeStart's Board for their faith and support during my transition into the CEO role from January, as well as my Executive Team for their energy, enthusiasm, and leadership during this period.

As we look ahead, home ownership remains increasingly out of reach for many South Australians as house price growth surpasses that of wages, and a rising interest rate cycle creates a new hurdle for home buyers. In this environment, the relevance and value of an organisation like HomeStart has never been stronger, and it is essential that we continue to push ourselves to create opportunities for future generations. Our work ensures HomeStart continues to deliver value for the South Australian community and economy, and we look forward to creating further success and opportunity for our state.

Andrew Mills | CEO

Our Story **So Far**

Since being established in 1989, HomeStart has helped thousands of South Australians to buy their own home using our innovative lending products, with the vast majority of these buyers unable to secure finance through a traditional lender. Our record of achievement benefits South Australian home buyers and has a positive impact on the State's building and construction industries, which helps to drive better outcomes for the wider economy. We have also provided a strong return on investment to the government and the South Australian taxpayer.

MORE THAN

81,000 CUSTOMERS

BOUGHT THEIR HOME THROUGH HOMESTART

1 IN 7
SA FIRST HOMEBUYERS BOUGHT THROUGH HOMESTART

$869m
CONTRIBUTED TO STATE GOVERNMENT

5,899
NEW HOMES BUILT

32 YEARS

$2.1BN
PORTFOLIO

800+
HOMESTART ACCREDITED BROKERS

2021-22 **At A Glance**

During the 2021-22 financial year HomeStart continued to innovate to help more South Australians buy their own home in more ways. This has resulted in strong levels of lending, growth of key lending products, and a trend towards more digital and online support and applications by our customers.

1,473
NEW LOANS
INCL 468 NEW BUILDS

114
SHARED EQUITY LOANS
HIGHEST IN A DECADE

$500m+
TOTAL LENDING

$55m+
PROFIT

0.38%
90 DAY ARREARS

66%
LOANS VIA BROKERS

1,012
FIRST HOME BUYERS

$341,555
AVERAGE LOAN SIZE

85%
COULDN'T GET FINANCE
WITH ANOTHER LENDER

Helping all **South Australians**

HomeStart exists to make home ownership a reality for more people in more ways. As a statutory corporation operating under the Housing and Urban Development (HomeStart Finance) Regulations 2020, 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, and to facilitate finance to develop community housing and aged care residential facilities.**

SA Government Priorities

Prior to the March 2022 South Australian election, HomeStart reported to the previous Treasurer, the Hon. Rob Lucas MLC. Following the change in Government, HomeStart reported to the new Treasurer, the Hon. Stephen Mulligan MP.

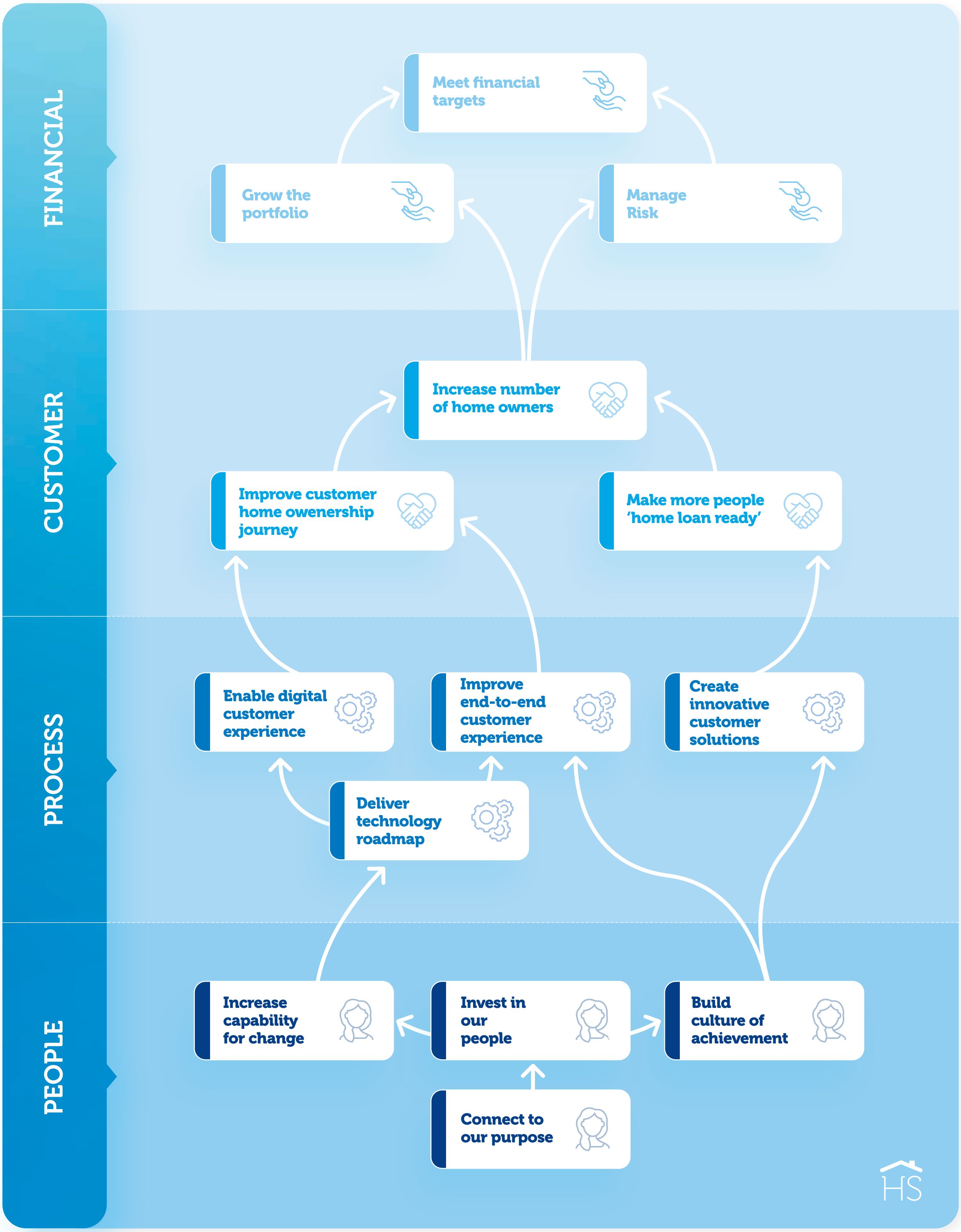
HomeStart seeks to actively contribute towards broader State Government priorities, including:

- **making South Australia an affordable place to live through the provision of innovative and targeted housing finance**
- **providing access to affordable and sustainable home finance, including through policy provisions to provide low deposit loans**
- **ensuring the dream of owning a home remains within reach for all South Australians**
- **contributing to the wellbeing and stability of the community to ensure South Australia is a vibrant state with safe and healthy neighbourhoods**

Our **Strategy** 2021-24

HomeStart entered into the first year of a new strategic plan, summarised by a strategy map which outlines how we will work towards creating an integrated team to help more South Australians become home owners.

Our new strategic plan has a focus on building a contemporary organisation centred around our customers, containing four areas of strategic intent – Customer Experience, Product and Credit Innovation, Culture and Capability, and Technology.



Our **Loans**

The HomeStart loan structure is unique. Repayments are set at an affordable level from the outset and will typically only increase once a year by the rate of inflation. This helps keep the home loan affordable, regardless of interest rate changes. Repayment increases were paused during the year to provide affordability assistance to home buyers. HomeStart provides a variety of different loan options, designed to help home buyers overcome barriers to home ownership.

Graduate Loan

The Graduate Loan is a low deposit loan to help people buy or build their own home sooner, and is available to those with a Certificate III or higher qualification.

619
2021-22 Graduate Loans

6,987
Total Graduate Loans to Date

$257m+
2021-22 Graduate Loans Value

HomeStart Home Loan

The HomeStart Home Loan offers flexible interest rate and repayment options, where people can buy an existing home, build, refinance, or buy land now and build later, with as little as a five per cent deposit and fewer upfront costs, such as no LMI.

766
2021-22 HomeStart Home Loans

43,983
Total HomeStart Home Loans to Date

$215m+
2021-22 HomeStart Home Loans Value

Loans for Construction

When building a home and borrowing with HomeStart, our customers do not have to make loan repayments for the first nine months or until construction is complete, whichever comes first. This provides real assistance with managing increasing living costs at a time of construction delays, labour shortages and supply chain issues.

468
2021-22 Construction Loans

5,899
Total Construction Loans to Date

$175 m+
2021-22 Construction Loans Value

Shared Equity Option

The Shared Equity Option allows customers to partner with HomeStart to buy the home they need while paying what they can afford, with HomeStart contributing up to 25 per cent of the purchase price. Repayments are based on borrowings and not the shared equity component, and HomeStart shares in the profit or loss pro rata when the home is sold.

114
2021-22 Shared Equity Option Loans

233
Total Shared Equity Option Loans to Date

$11m+
2021-22 Shared Equity Option Loans Value

Advantage Loan

The Advantage Loan increases low-to-moderate income earners' buying power without increasing monthly repayments. Held in addition to another HomeStart loan, it carries a low, subsidised interest rate. Repayments start after home buyers pay off their standard HomeStart Loan.

250
2021-22 Advantage Loans

14,255
Total Advantage Loans to Date

$6.7m+
2021-22 Advantage Loans Value

Starter Loan

The Starter Loan is designed to help cover the upfront costs of buying or building a home, such as stamp duty or conveyancing fees. The loan of up to $10,000 is taken out with another HomeStart loan and offers an interest and repayment-free period of five years. The Starter Loan was launched in 2019.

395
2021-22 Starter Loans

883
Total Starter Loans to Date

$3.6m+
2021-22 Starter Loans Value

Wyatt Loan

HomeStart offers eligible low-income households a loan of up to $12,000 to assist with upfront costs, in conjunction with the Wyatt Trust. The loan is taken out with another HomeStart loan and offers an interest and repayment-free period of five years.

7
2021-22 Wyatt Loans

418
Total Wyatt Loans to Date

$63,725
2021-22 Wyatt Loans Value

Seniors Equity Loan

The Seniors Equity Loan is a reverse mortgage product for those aged over 60, which allows them to unlock equity in their home.

83
2021-22 Seniors Equity Loans

2,779
Total Seniors Equity Loans to Date

$8.6m+
2021-22 Seniors Equity Loans Value

Distribution

Our broker channel has continued to grow, and they've never been happier to work with HomeStart, with broker satisfaction scores rising to 92 per cent.

92% Broker **Satisfaction**

970
2021-22 New Loans via brokers

$334m+
2021-22 Value of Loans via brokers

66%
2021-22 HomeStart Loans via brokers

Community **Engagement**

Customer Service

Average Net Promoter Score:	**49%**
Website Page Views:	**2m**
Facebook Followers:	**13,906**

Seminars

2021-22 Seminars:	**5**
Attendees:	**162**

Home Buyer Ready Program

Users:	**2,599**

Community Partnerships

Donations

In 2021-22, HomeStart supported the following organisations.

Learning **& Growth**

- Our Employee Value Proposition focused on "Work that Matters", "Work to Suit Your Lifestyle" and "Work to Grow", supporting career progression
- We further expanded our Work, Health and Safety (WHS) training program with nearly 20 percent of our workforce undertaking the training during the year
- We continued our People Leader coaching programs and our Next Generation emerging leaders' program
- We established a Reconciliation Action Plan Working Group
- Our team participated in the 'I Work for SA' survey.
- We provided onsite Mental Health First Aid Officer and First Aid Officer training
- Healthy Minds program delivered to all employees
- Wellbeing activities held throughout the year that proactively supported the wellbeing of our employees

Engagement surveys

- **Employee engagement increased 2% to 79%, the highest since 2018**
- **Engagement Survey participation: 83%**
- **Culture Survey participation: 84%**
- **Increases have been seen in the constructive styles; Humanistic-Encouraging and Self-Actualising**
- **Decrease in passive/defensive and aggressive /defensive styles.**

Our workforce

51% Women

40% Female executives

7% Employed part-time

1% Employed as part of the Disability Program

34% Born overseas

1% Participated in the Graduate Program

Leadership and management training expenditure:

Total training and development expenditure: **$321,160**, or **2.33%** of salary expenditure.

Documented review of individual performance management

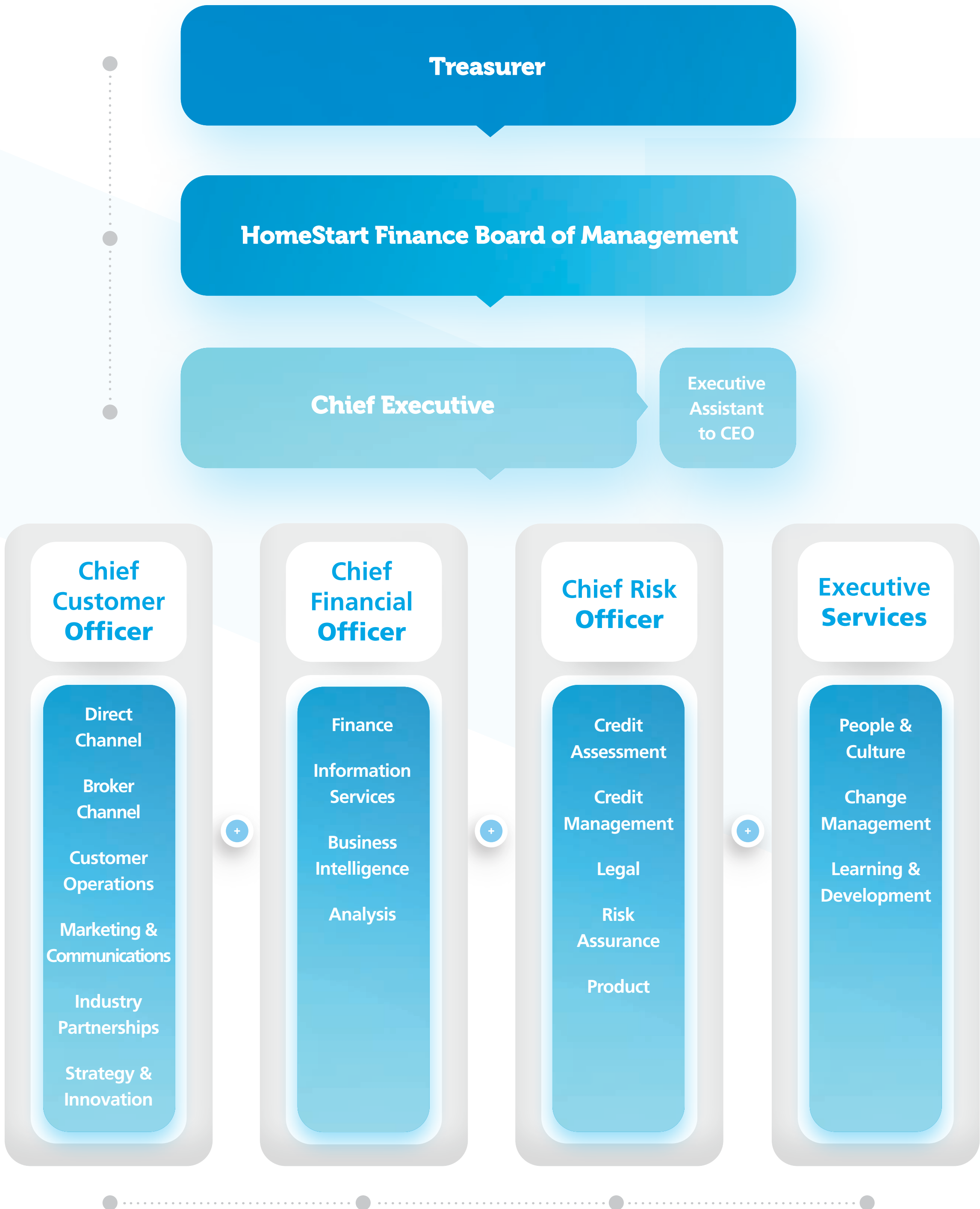
Performance management and development system

Performance plans are facilitated and documented through *myPlan* and *myDevelopment* learning management system. The formal performance discussion process is biannual, and focuses on learning and growth.

Performance

As at 30 June 2022, 100% of employees had a performance development discussion in the previous six months.

Organisational **Chart**



Our
Executive Team

Andrew Mills
Chief Executive Officer

Andrew Mills started as Chief Executive Officer in January 2022, having previously held senior executive positions across the organisation over the past decade. He possesses strong financial and business acumen and has been a key contributor to the success of HomeStart, fostering strong relationships within the organisation and externally. Andrew brings a unique focus on product innovation, digital transformation and organisational development, which will be instrumental to guide HomeStart through this challenging time in the housing market. His commitment to help more South Australians into home ownership is coupled with a belief that HomeStart can continue to play a key role in the economic and social prosperity of the State.

Vas Iannella
Chief Customer Officer

Vas Iannella joined HomeStart as Chief Customer Officer in May 2020. She has more than 15 years of retail and commercial banking experience helping to redefine customer experiences, and businesses to have the right processes and people in place to deliver the best customer outcomes. In her role at HomeStart, Vas oversees marketing and communication, customer service teams and key business partners, and plays a key role in organisational strategy and innovation.

Braden Naylor
Chief Financial Officer

Braden Naylor joined HomeStart as Chief Financial Officer in February 2022. His career spans more than 20 years in senior finance, commercial and strategy roles within government and major utilities, including playing a key role in property and infrastructure development. As Chief Financial Officer, Braden is responsible for leading and developing the financial, information services, analytical, business intelligence and treasury functions for HomeStart, and contributes strategically to all drivers of organisational performance.

Ryan Officer
Chief Risk Officer

Ryan Officer relocated from Queensland to join HomeStart as Chief Risk Officer in October 2021. He has held roles across multiple facets of the banking sector with experience in business and retail banking, and was most recently the Chief Risk Officer Retail at Bank of Queensland. In this role, Ryan has oversight of credit and operational risk and compliance, legal, credit management and products.

Vanessa Charlesworth
People and Culture Leader

Vanessa Charlesworth joined HomeStart in 2010. She has worked as an HR professional for more than 25 years in the health and finance industries. At HomeStart, she uses her professional skills and knowledge to assist and guide the organisation strategically on a broad range of matters across a range of disciplines including employee relations, work health and safety, learning and development, recruitment and remuneration.

Our aim is to build an organisation which gives **customers** the chance to become successful **home owners**, sooner.

Our **Board**

Jim Kouts
Chair

Jim Kouts has significant commercial, strategic and governance experience across a range of National and state-based private and government sector organisations. He is a former senior national executive having worked for two global energy groups for close to 20 years. Jim is Chair of the Adelaide Convention Bureau and a Non-Executive Director of the Adelaide Venue Management Corporation. He has been a long-term Strategic Adviser to Adelaide Airport Limited and Flinders Port Holdings. Jim was appointed Chair of HomeStart in December 2013, having previously been Deputy Chair.

Chris Ward
Deputy Chair

Chris Ward is a professional Non-Executive Director, having had more than 30 years of broad executive experience, primarily in banking and finance. He is an Advisory Board Chair to two private companies. Chris is a former Non-Executive Director, Chair of the Risk and Audit Committee and a member of the Remuneration Committee at the South Australian Film Corporation, a former Non-Executive Director of the Australian Dance Theatre and was an Executive Partner at UniSA. Chris was appointed to the HomeStart Board in June 2012, was appointed Deputy Chair in December 2013 and has chaired several committees.

Sue Edwards
Board Member

Sue Edwards is a chartered accountant and is currently the Chief Commercial Officer of the Mitolo Group of Companies. She is a former Partner of Deloitte where she specialised in providing business advice, including strategy, finance and taxation, and is a former treasury manager with Adelaide Bank. She is also a board member of the SA Museum. Sue Edwards was appointed to the HomeStart Board in December 2010.

Darryl Royans
Board Member

Darryl Royans has extensive finance and management experience gained through a 40 year career with the Commonwealth Bank of Australia. Prior to retirement he held the role of State Manager for SA & NT Commercial Banking Risk. Darryl consults to private financier Keystone Capital Ltd, by virtue of an ASIC Credit License, is a Justice of the Peace, and is the former Chair of the Board of Alwyndor Aged Care. Darryl was appointed to the HomeStart Board in December 2013.

Shanti Berggren
Board Member

Shanti Berggren is the national Head of Procurement for Optus and is also responsible for Singtel Group's IT Procurement portfolio. She has practiced law, primarily in technology and telecommunications, for 27 years, and worked in Los Angeles, Singapore and Sydney. She is the Chair of the Board of Directors of Wilderness School and a Director of the Adelaide Football Club. Shanti was appointed to the HomeStart Board in March 2017.

Andrew Seaton
Board Member

Andrew Seaton is Managing Director and Chief Executive of Australian Naval Infrastructure. He has extensive finance, strategic, commercial and project management experience, having worked in banking, natural resources and defence industries for more than 30 years. Andrew previously held the roles of Chief Financial Officer at Santos Limited, Vice-President Investment Banking with Merrill Lynch and Client Director with NAB. He is a Non-Executive Director of ASX-listed Strike Energy Ltd, Rex Minerals Ltd and Hydrocarbon Dynamics Ltd. Andrew was appointed to the HomeStart Board in 2019.

Paulette Kolarz
Board Member

Paulette Kolarz is the Managing Director of BespokeHR and specialises in human resource management and leadership development. During her corporate career, Paulette supported the rebranding of Harris Scarfe after it came out of receivership in 2001. In 2008, she was named the SA Telstra Business Women of the Year, the SA PricewaterhouseCoopers Young Business Women of the Year and the SA Hudson Private and Corporate Business Women of the Year. Paulette was appointed to the HomeStart Board in 2021.

Board **Attendance**

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
S Berggren	11	10
A Seaton	11	11
P Kolarz	11	11

Member	Asset & Liability Committee Attendance	
	Eligible to attend	Meetings attended
J Kouts (Chair)	-	-
C Ward (Deputy)	11	11
S Edwards	8	8
D Royans	3	3
S Berggren	11	11
A Seaton	-	-
P Kolarz	-	-

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

Corporate **Governance**

HomeStart Finance is a statutory corporation operating under the Urban Renewal (HomeStart Finance) Regulations 2020.

HomeStart falls under the ministerial responsibility of the Treasurer, the Hon. Stephen Mullighan, MP in the South Australian Government.

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, ASIC, APRA, 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 2021-22 are identified on pages 24 and 25.

Board members are independent of the organisation and 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 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 is invited to each Board meeting.

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

Audit Committee

This committee is chaired by Andrew Seaton and includes two other Board members, 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 status of risks and internal controls
- reviewing the financial reporting processes and outputs
- reviewing compliance with relevant laws and regulations
- monitoring the internal and external audit functions
- monitoring internal control processes
- 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 members. The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are also members. Other management personnel and representatives from the South Australian Government Financing Authority (SAFA) also attend. The committee ensures that HomeStart:

- maintains sound, prudent financial asset and liability management practices for long-term financial viability
- 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 members.

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

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, considering 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.

The Board employs balanced scorecard methodologies on a monthly basis to monitor all key areas of HomeStart's business operations. The individual sub-committees of the Board provide feedback 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 CEO 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 2021-22 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 CEO rests with the Board. 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
- 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 Committee, 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 considers 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 Advisory Group ensures that changes to our policies result in sound lending decisions and arrears management practices.

The Board Credit Sub-Committee assesses and reviews lending to community housing organisations.

Regular and comprehensive reporting and monitoring is provided 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 regularly 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 risks as outlined in the standard ISO/IEC 27001:2013 Information Security Management. The program includes a suite of policies specific to information security.

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.

Compliance, internal control and assurance

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 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 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 75.

Deloitte conducted the operational internal audit function for 2021-22 which was based on a three-year rolling audit plan.

Statutory **Information**

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 these documents can be accessed from homestart.com.au or by contacting the Freedom of Information Officer on (08) 8203 4750.

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).

Overseas travel

There was no overseas travel undertaken during 2021-22.

Public **Complaints**

Category of complaint by subject	Number
Complaints received through the Australian Financial Complaints Authority	12
Collections	5
Policy	2
Service	5
Complaints lodged with State Ombudsman	0
Complaints direct to HomeStart	32
Collections	6
Policy	11
Service	15
Other	0
Total complaints	**44**

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 biennially. A customer complaints register provides valuable information and feedback to ensure policies and procedures remain current.

Consultancy **Expenditure**

Consultant	Purpose of Consultancy	Number	Cost $'000
Total consultancies below $10 000	Various	2	7
Total consultancies $10 000 and above			
Brett & Watson	Actuary review	1	17
Global Centre for Modern Ageing	Market research	1	25
Total consultancies		**4**	**49**

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.

Activities to support a safe work environment include:

- onsite training of Mental Health First Aid Officers
- First Aid Officers training
- emergency evacuation drills
- annual influenza vaccination program
- provision of online training; mandatory and optional opportunities
- choice of Employee Assistance Program providers
- worksite inspections across all locations
- continued ergonomic assessments, in the workplace and for work from home employees
- paid COVID-19 leave
- site and access evaluation for vision impaired employees
- Healthy Minds program delivered to all employees
- review of Disability Access and Inclusion Plan.

There were no WHS Prosecutions, notices or corrective actions during 2021-22.

Financials

HomeStart achieved an underlying profit before tax of $40.7m in 2021-22, slightly below the previous year of $42.7m. The buoyant property market underpinned significant unrealised gains on HomeStart's shared equity portfolio. Once unrealised gains and debt provisioning changes were included, HomeStart achieved a record operating profit before tax of $55.7m ($49.6m 2020-21). This represented a return on equity of 32.1 per cent against a target of nine per cent.

HomeStart continued to provide substantial payments to the Government, amounting to $83.4m for the year, and $869.1m since inception in 1989.

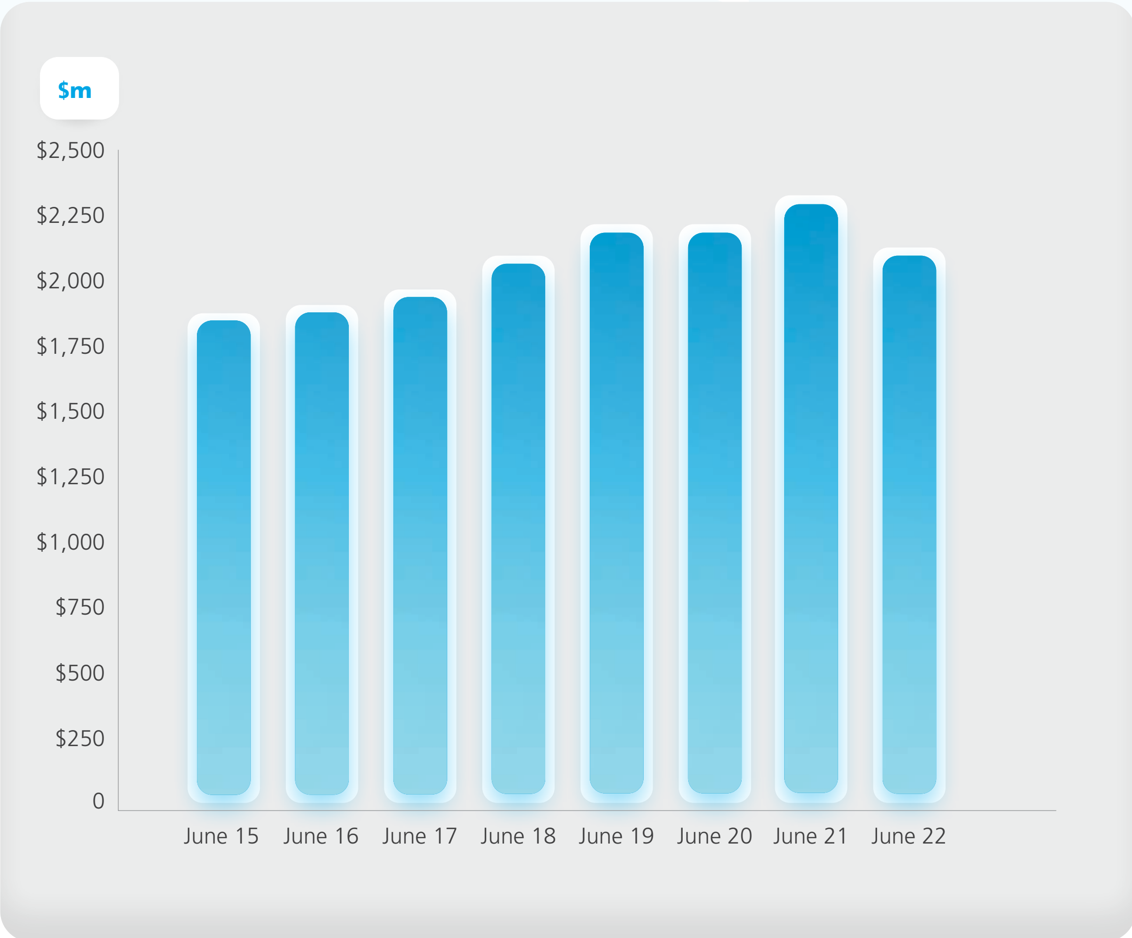
HomeStart ended the year in a strong financial position, with excellent underlying profitability, sound credit and robust capital. Combined with the organisational focus of delivering social obligations to our customers within a commercial framework and prudent risk management, HomeStart continues to ensure long-term value for all.

HomeStart received a Community Service Obligation (CSO) reimbursement of $8.0m in 2021-22 ($7.6m, 2020-21) recognising the cost of providing our non-commercial activities. HomeStart's debt funding from SAFA was $1.9bn against a borrowing limit of $2.46bn. Common Equity Tier 1 capital improved slightly over the year due to a lower portfolio value, ending at 12.5 per cent (11.3 per cent, 2020-21).

Asset and liability management

The gross loan portfolio fell slightly during 2021-22 to $2.1bn ($2.3bn, 2020-21). The end of the Federal Government's HomeBuilder Grant resulted in a fall in new lending from the record level achieved in the year prior. Market conditions continued to enable large volumes of customers to refinance their loan to other major lenders, which is a positive outcome closely aligned to HomeStart's role and purpose in the market.

Gross **Portfolio Size**



Funding

HomeStart's lending is financed by its capital base and borrowings from SAFA. A global approach to treasury risk management continues to be applied, whereby risks are amalgamated from all activities and managed on a consolidated basis, taking advantage of offsetting risks.

ALCO reviews HomeStart's Treasury policies and compliance with them.

Provisioning

HomeStart has recognised specific and collective provisions of $19.7m ($20.6m, 2020-21) against its loan portfolio.

Credit performance across the portfolio continued to be very strong. HomeStart worked closely with all customers who required payment assistance because of the ongoing pandemic and by the end of the financial year those who had requested this assistance had returned to normal payment arrangements or had been discharged.

Consistent with industry practice and the forward-looking nature of AASB 9 Financial Instruments, HomeStart retained a conservative posture in relation to provisioning for future bad and doubtful debts. This position reflects the general uncertainty surrounding the outlook for economic conditions in the coming year, with expectations of rising interest rates and high inflation.

Management believes the sum of its specific and collective provisions constitutes adequate provisioning to meet potential loan losses in the future.

Financial indicators	2014	2015	2016	2017	2018	2019	2020	2021	2022
Operating Profit ($m)	17.0	15.6	17.0	20.3	18.9	23.3	31.2	49.6	55.7
Return On Equity (%)	10.2	9.0	10.2	12.5	11.5	14.4	19.6	31.0	32.1
Net Interest Margin (%)	1.0	1.0	1.1	1.3	1.2	1.3	1.9	2.2	2.2
Balance sheet strength	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Capital ($m)	169.3	173.2	157.3	165.4	162.2	159.2	158.4	161.6	185.4
Provisions ($m)	20.5	18.0	17.3	18.2	17.5	18.6	23.4	20.6	19.7
Gross loan portfolio ($m)	1,907.6	1,840.2	1,867.7	1,939.7	2,103.1	2,245.7	2,227.5	2,280.5	2,119.4

Financial contributions to the **State Government**

$869.1m paid to the State Government since inception

Payment Type ($m)	1995-2014[1]	2015	2016	2017	2018	2019	2020	2021	2022	Total
Guarantee fee	213.7	27.5	26.5	28.0	28.6	29.7	27.5	22.9	19.7	**424.1**
SAFA[2] admin fee	13.2	1.0	1.0	1.0	1.1	1.2	1.2	1.2	1.2	**22.1**
Tax Equivalent	62.2	5.1	4.9	5.2	6.2	6.0	9.0	11.0	16.0	**125.6**
Dividends	79.8	7.1	7.1	7.1	9.1	14.8	22.3	26.2	46.4	**219.9**
Interim (special) Dividend	47.3	0.0	20.0	0.0	10.0	0.0	0.0	0.0	0.0	**77.3**
Total paid	**416.2**	**40.7**	**59.5**	**41.3**	**55.0**	**51.7**	**60.0**	**61.3**	**83.4**	**869.1**

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

Certification of the **Financial Statements**

For the year ended 30 June 2022

We certify that the:

- financial statements of HomeStart Finance:
  - Are in accordance with the accounts and records of HomeStart Finance
  - Comply with relevant Treasurer's Instructions; and
  - Comply with relevant accounting standards; and
  - Present a true and fair view of the financial position of HomeStart Finance at the end of the financial year and the result of its operations and cash flows for the financial year.
- internal controls employed by HomeStart Finance for the financial year over its financial reporting and its preparation of financial statements have been effective.

Signed in accordance with a resolution of the Board members.

Jim Kouts
Chair
20 September 2022

Chris Ward
Deputy Chair
20 September 2022

Andrew Mills
Chief Executive Officer
20 September 2022

Braden Naylor
Chief Financial Officer
20 September 2022

HomeStart Finance
Statement of Comprehensive Income
For the year ended 30 June 2022

	Note	2022 $'000	2021 $'000
Interest income	4	88,184	93,234
Interest expense	4	(14,335)	(12,917)
Net interest income	4	**73,849**	**80,317**
Other income	5	27,866	16,298
Broker fees		(3,431)	(3,310)
Employee benefits expenses	6	(13,160)	(12,891)
Bad and impaired loans income/(expense)	10	707	1,952
Depreciation and amortisation expense	11	(3,163)	(2,596)
Other expenses	12	(7,293)	(7,225)
Profit before income tax equivalents and government guarantee fee expenses		**75,375**	**72,545**
Government guarantee fee	9	(19,655)	(22,937)
Profit before income tax equivalents		**55,720**	**49,608**
Income tax equivalents expense	2.2	(16,716)	(14,882)
Profit after income tax equivalents		**39,004**	**34,726**
Other Comprehensive Income			
Items that will be reclassified subsequently to net result when specific conditions are met			
Change in fair value of derivatives		23,832	3,180
Total other comprehensive income		**23,832**	**3,180**
Total comprehensive result		**62,836**	**37,906**

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.

HomeStart Finance
Statement of Financial Position
As at 30 June 2022

	Notes	2022 $'000	2021 $'000
Assets			
Cash and cash equivalents	30.1	7,434	5,565
Financial investments	14	1,272	1,057
Derivative financial instruments	31.2.2	22,563	-
Loans and advances	15	2,095,503	2,249,595
Other financial assets	16	842	271
Intangible assets	17	8,212	6,262
Property, plant and equipment	18	6,696	8,028
Other assets	19	827	581
Total assets		**2,143,349**	**2,271,359**
Liabilities			
Payables	21	3,020	3,355
Derivative financial instruments	31.2.2	-	1,269
Short-term borrowings	22	175,728	100,456
Employee benefits	23	1,912	2,153
Income tax equivalents payable	24.1	8,848	8,171
Provision for dividend	24.2	2,288	9,726
Long-term borrowings	22	1,756,198	1,978,862
Other liabilities	25.1	9,918	5,762
Total liabilities		**1,957,912**	**2,109,754**
Net assets		**185,437**	**161,605**
Equity			
Reserves	26	22,563	(1,269)
Retained earnings		162,874	162,874
Total equity		**185,437**	**161,605**

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

HomeStart Finance
Statement of Changes in Equity
For the year ended 30 June 2022

	Notes	Retained earnings $'000	General reserve for credit losses $'000	Derivatives valuation reserve $'000	Total Equity $'000
Balance at 30 June 2020		**152,158**	**10,716**	**(4,449)**	**158,425**
Profit after income tax equivalent for 2020-21		34,726	-	-	34,726
Change in fair value of derivatives	2.5.5	-	-	3,180	3,180
Total comprehensive result for 2020-21		**34,726**	**-**	**3,180**	**37,906**
Transfer to/from credit loss reserve	26	10,716	(10,716)	-	-
Transactions with SA Government as owner					
Dividends paid/payable	24	(34,726)	-	-	(34,726)
Balance at 30 June 2021		**162,874**	**-**	**(1,269)**	**161,605**
Profit after income tax equivalent for 2021-22		39,004	-	-	39,004
Change in fair value of derivatives	2.5.5	-	-	23,832	23,832
Total comprehensive result for 2021-22		**39,004**	**-**	**23,832**	**62,836**
Transactions with SA Government as owner					
Dividends paid/payable	24	(39,004)	-	-	(39,004)
Balance at 30 June 2022		**162,874**	**-**	**22,563**	**185,437**

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

HomeStart Finance
Statement of Cash Flows
For the year ended 30 June 2022

Cash flows from operating activities

	Notes	$'000 2022	$'000 2021
Cash inflows			
Interest received on loans and advances		84,529	88,733
Fees and commissions received		2,011	1,892
Bad debts recovered		123	162
Community Service Obligation subsidy received from SA Government		7,964	7,553
Other receipts		2,780	1,203
Cash generated from operating activities		**97,407**	**99,543**
Cash outflows			
Employee benefit payments		(13,401)	(13,711)
Payments for supplies and services		(4,214)	(3,665)
Payments to brokers		(3,490)	(4,363)
Borrowing costs paid		(13,807)	(12,982)
Government guarantee fee paid		(19,712)	(23,044)
Tax equivalent paid		(16,038)	(10,976)
Cash used in operating activities		**(70,662)**	**(68,741)**
Net cash (used in)/provided by operating activities	30.2	**26,745**	**30,802**

Cash flows from investing activities

	Notes	$'000 2022	$'000 2021
Cash inflows			
Shared appreciation components of Breakthrough Loan repaid	32.4	4,384	6,201
Shared appreciation components of Shared Equity Option Loan repaid	32.4	1,311	430
Customer loans repaid		660,471	466,870
Cash generated from investing activities		**666,166**	**473,501**
Cash outflows			
Purchase of property, plant and office and computer equipment		(44)	(482)
Purchase of software		(3,644)	(2,221)
Purchase of investments designated at fair value through profit or loss		(777)	(202)
Shared appreciation component of Shared Equity Option Loan settled	32.4	(11,190)	(2,955)
Customer loans settled		(481,420)	(519,554)
Cash used in investing activities		**(497,075)**	**(525,414)**
Net cash (used in)/provided by investing activities		**169,091**	**(51,913)**

Cash flows from financing activities

	Notes	$'000 2022	$'000 2021
Cash inflows			
Proceeds from borrowings		375,214	600,000
Cash generated from financing activities		**375,214**	**600,000**
Cash outflows			
Dividends paid to SA Government		(46,442)	(26,205)
Repayment of leases		(739)	(658)
Repayment of borrowings		(522,000)	(550,696)
Cash used in financing activities		**(569,181)**	**(577,559)**
Net cash (used in)/provided by financing activities	30.3	**(193,967)**	**22,441**
Net (decrease)/increase in cash and cash equivalents		**1,869**	**1,330**
Cash and cash equivalents at the beginning of the period		5,565	4,235
Cash and cash equivalents at the end of the period	30.1	**7,434**	**5,565**

The accompanying notes form part of these financial statements.

NOTE 1 About HomeStart Finance

1.1 About HomeStart Finance

HomeStart was established as a for-profit State Government organisation and operates under the *Urban Renewal (HomeStart Finance) Regulations 2020*. It reports to the Treasurer of South Australia.

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 2022 was $1.874 billion ($2.047 billion, 2020-21).

In addition, HomeStart offers a range of shared equity products and the outstanding value as at 30 June 2022 was $70.1 million ($50.3 million, 2020-21).

HomeStart also offers a Seniors Equity (reverse mortgage) product and the outstanding value as at 30 June 2022 was $75.5 million ($77.0 million, 2020-21).

Subsidies

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

As at 30 June 2022, the weighted average interest rate applying to Advantage Loans was 2.47% (2.00%, 2020-21). The outstanding value of Advantage Loans at 30 June 2022 was $73.7 million ($77.2 million, 2020-21).

For the year ended 30 June 2022, HomeStart received a Community Service Obligation (CSO) subsidy payment of $4.9m ($4.5 million, 2020-21) from the Department of Treasury and Finance for Advantage Loan subsidies provided.

1.2 Impact of COVID-19 pandemic on HomeStart Finance

The COVID-19 pandemic continued to have a direct impact on the operations of HomeStart at various times during the year.

Over the term of the pandemic, 809 loans requested some form of negotiated payment arrangement. Of this group, by 30 June 2022, 488 had completed their arrangements and continued under normal loan management processes. A further 321 loans had discharged subsequent to entering arrangements. There were no loans under a negotiated payment arrangement as at 30 June 2022.

Other key impacts in 2021-22 were:

- The HomeStart loan product is designed so that the instalment is indexed upward by CPI each year. At the onset of the pandemic in late 2019-20, HomeStart paused the indexation of home loan repayments as a means of providing some form of cash flow assistance. The pause remained in effect for 2021-22. This had the effect of providing a small amount of cash flow relief to home loan customers and had minimal cash flow, portfolio, or financial impact on HomeStart. CPI indexation has been approved to recommence in 2022-23.
- The financing of house and land packages represents a significant proportion of HomeStart's new lending. House and land package activity levels were lower in 2021-22 due to Commonwealth Government policies arising from the pandemic in 2020-21 which accelerated customers lending due to timing requirements under the Government assistance policies.
- At times during the year HomeStart conducted a majority of operations remotely, 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 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 South Australian Government Financing Authority (SAFA) bonds of the following maturities;

- seven years for Advantage Loans; and
- ten years for EquityStart Loans.

2.3.3 *Interest income – impaired loans*

HomeStart ceases accruing interest income on loans when it considers that it is 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 adequately 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 (FVTPL), 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 the proceeds on sale with the carrying amount. The gains or losses arising from disposal of non-financial assets are recognised on a net basis as income or an expense.

2.3.8 *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, superannuation, 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*

At inception of a contract, HomeStart assesses whether 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.

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 HomeStart's incremental borrowing rate, published by the Department of Treasury and Finance and reflect the terms of the lease and the type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments; and
- 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 subsequently 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.

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; and
- right-of-use assets are subsequently measured applying a cost model.

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 right-of-use 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 - cash management funds (refer to note 2.5.2.1);
- loans and advances at fair value through profit or loss - Shared Equity loans (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); and
- 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); or
- 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.

If financial assets do not meet the above criteria, they are measured at fair value through profit or loss.

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 other comprehensive income (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 the 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 flows.

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
- 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 allowance for expected credit losses.

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); and
- 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 instrument 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 instrument 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); or
- rebuttable presumption that loans which are 90 days or more past due are considered credit-impaired; or
- significant financial difficulty of the borrower; or
- 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 sufficient 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 being the difference between outstanding loan balance and the value of the security sold 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; and
- 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; and
- a backstop of 30 days past due.

Calculation of ECLs

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 47.5% probability of occurring (55%, 2020-21), and two alternative scenarios, one upside assigned a 5% probability of occurring (10%, 2020-21) and one downside assigned a 47.5% probability of occurring (35%, 2020-21). The base case is aligned with information used by 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 2-3 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 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); and

- 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 is 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 recognised at cost or at the value of any liabilities assumed, plus any incidental costs involved with the acquisition. Property, plant and equipment are subsequently measured using the revaluation model per note 2.5.4.3.

Where assets are acquired at no value, or minimal value, they are recognised 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 recognised at cost and are tested for indications of impairment at each reporting date. Following initial recognition, intangible assets are measured 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 subsequently measured at fair value. Where the cost at the time of acquisition is less than $1.5 million ($1.5 million, 2020-21) or the estimated useful life of the asset is less than 3 years, its cost less accumulated depreciation is considered to represent its fair value (deemed fair value) and no revaluation is performed.

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 at 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; and
- 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' Accounts).

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 a 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); or
- 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 QBE Insurance through 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 Impacts of standards not yet effective

Several amendments and interpretations apply for the first time in 2022 but do not have a material impact on the financial statements of HomeStart. HomeStart has assessed the impact of upcoming Australian Accounting Board Standards and Interpretations effective for annual periods beginning after 30 June 2022. 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.

	2022	2021
Interest income	**$'000**	**$'000**
Loans and advances	81,899	87,617
Subsidised loans effective interest income	3,508	3,759
Subsidised loans fair value income/(expense)	238	(842)
Loan origination income amortisation	2,539	2,700
Total interest income	**88,184**	**93,234**
Interest expense		
Borrowings from SAFA	(14,129)	(12,695)
Lease liability	(206)	(222)
Total interest expense	**(14,335)**	**(12,917)**
Net interest income	**73,849**	**80,317**

NOTE 5 Other income

See accounting policy in note 2.3.5-8.

	2022 $'000	2021 $'000
Fees and charges	2,656	2,538
Bad debts recovered	123	162
Unrealised gain in fair value of loans at FVTPL*	14,350	4,883
Realised change in fair value of loans at FVTPL	2,484	1,087
Community Service Obligation (CSO) subsidy	7,964	7,553
Other	289	75
Total other income	**27,866**	**16,298**

*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.

	2022 $'000	2021 $'000
Salaries and wages	10,940	10,808
Long service leave (LSL)	(1)	32
Annual leave	203	206
Employment on-costs – superannuation*	1,045	1,005
Employment on-costs – other	635	591
Workers compensation	69	-
Board and committee fees	269	249
Total employee benefits expenses	**13,160**	**12,891**

*The superannuation employment on-cost charge represents HomeStart's contribution to defined contribution 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:

	2022 No.	2021 No.
$154,001 to $157,000*	n.a.	1
$157,001 to $177,000	5	5
$177,001 to $197,000	2	2
$197,001 to $217,000	1	-
$217,001 to $237,000	-	1
$237,001 to $257,000	2	2
$257,001 to $277,000	1	1
$317,001 to $337,000	1	-
$357,001 to $377,000	1	-
$437,000+	-	1
Total	**13**	**13**

* This band has been included for the purpose of reporting comparative figures based on the executive base level remuneration rate for 2020-21.

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 $2.85 million ($2.78 million, 2020-21).

Number of employees
HomeStart employed 118 people at the end of the reporting period (123, 2020-21).

NOTE 8 Key management personnel

Key Management Personnel of HomeStart include the Treasurer, 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 Treasurer is considered a member of the key management personnel of HomeStart due to the power provided under the *Urban Renewal Act 1995* for the Treasurer to control and direct HomeStart.

The compensation disclosed in this note excludes salaries and other benefits the Treasurer receives. The Treasurer'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 2022 financial year were:

Mr Jim Kouts (Chair)
Mr Chris Ward (Deputy Chair)
Ms Sue Edwards
Mr Darryl Royans
Ms Shanti Berggren
Mr Andrew Seaton
Ms Paulette Kolarz

(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 Andrew Mills - Chief Executive Officer (appointed 1 January 2022) and Chief Financial Officer (until 31 December 2021)
Mr John Oliver - Chief Executive Officer (until 31 December 2021)
Mr Braden Naylor - Chief Financial Officer (appointed 21 February 2022)
Mr Ryan Officer - Chief Risk Officer (appointed 5 October 2021)
Ms Vas Iannella - Chief Customer Officer
Ms Vanessa Charlesworth - People & Culture Leader

(c) Key Management Personnel compensation

The compensation of key management personnel for the years ended 30 June 2022 and 2021 included in employee benefits expenses (see note 6) is as follows:

	2022 $'000	2021 $'000
Salaries and other short-term employee benefits	1,281	1,219
Long-term employee benefits (long service leave)	41	3
Long-term employee benefits (amounts paid to superannuation plans)	121	111
Total	**1,443**	**1,333**

(d) Board and committee remuneration

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

	2022 No.	2021 No.
$0 - $19,999	-	2
$20,000 - $39,999	2	-
$40,000 - $59,999	5	6
Total number of members	**7**	**8**

The total remuneration received and receivable by members was $0.29 million ($0.28 million, 2020-21) 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.

	2022 $'000	2021 $'000
Government guarantee fee paid or payable	19,655	22,937
Total government guarantee fee	**19,655**	**22,937**

The methodology pursuant to policy for calculating the Government Guarantee Fee (GGF) rate uses the four year term to maturity credit spreads averaged over the 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) remaining at 0.85% pa for the 2021-22 financial year (0.85%, 2020-21). Existing debt will continue to attract the legacy rates approved in previous financial years ranging from 0.85% to 1.36% p.a. (0.85% to 1.56% p.a., 2020-21).

NOTE 10 Bad and impaired loans expense/(income)

See accounting policy in note 2.5.3.1.

	2022 $'000	2021 $'000
Bad and impaired loans expense	2	61
Increase/(decrease) in provision for impairment	(709)	(2,013)
Total bad and impaired loans expense/(income)	**(707)**	**(1,952)**

NOTE 11 Depreciation and amortisation expense

See accounting policy in note 2.5.4.4.

	2022 $'000	2021 $'000
Other office and computer equipment	400	344
Leasehold improvements	275	274
Right of use buildings	722	702
Right of use motor vehicles	21	21
Intangible assets	1,745	1,255
Total depreciation and amortisation expense	**3,163**	**2,596**

NOTE 12 Other expenses

	2022 $'000	2021 $'000
External auditor's remuneration	175	173
Insurance	129	112
Office accommodation	151	186
Marketing, product development and advertising	1,636	1,720
Internal audit fees	199	198
Loan administration	234	163
Information technology	1,834	1,847
Consultant fees	75	49
Human resources and staff development	656	505
Other	2,204	2,272
Total other expenses	**7,293**	**7,225**

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:	2022 No.	2022 $'000	2021 No.	2021 $'000
Below $10 000	-	-	2	7
$10 000 or above	3	75	2	42
Total	**3**	**75**	**4**	**49**

NOTE 13 Auditor's remuneration

	2022 $'000	2021 $'000
Audit fees paid/payable to the Auditor-General's Department relating to work performed under the *Public Finance and Audit Act 1987*	175	173
Total	**175**	**173**

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.

	2022 $'000	2021 $'000
SAFA Cash Management Fund (Wyatt)	1,272	1,057
Total financial investments	**1,272**	**1,057**

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	2022 $'000	2021 $'000
Loans and advances at amortised cost	1,949,843	2,122,314
Loans and advances at FVTPL	145,660	127,281
Total loans and advances	**2,095,503**	**2,249,595**

15.1 Loans and advances at amortised cost	2022 $'000	2021 $'000
Primary loans	1,873,721	2,046,545
Subsidised loans	107,582	110,898
Gross loans and advances	**1,981,303**	**2,157,443**
Fair value adjustment	(5,911)	(7,038)
Deferred loan fee income	(9,970)	(10,843)
Deferred loan fee expense	5,155	5,096
Unearned income on impaired loans	(1,062)	(1,676)
Provision for expected credit losses specific	(4,106)	(5,329)
Provision for expected credit losses collective	(15,566)	(15,339)
Total loans and advances at amortised cost	**1,949,843**	**2,122,314**

See accounting policy in note 2.5.3.1.

	2022 $'000	2021 $'000
Stage 3 Specific provision - Lifetime Expected Credit Losses (ECL)	**(4,106)**	**(5,329)**
Stage 3 Collective provision - Lifetime ECL	(553)	(614)
Stage 2 Collective provision - Lifetime ECL	(7,668)	(8,289)
Stage 1 Collective provision - 12-months ECL	(7,345)	(6,436)
Total Collective provision for impaired loans	**(15,566)**	**(15,339)**
Total provision for credit impairment	**(19,672)**	**(20,668)**

	2022				
	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	Stage 3 Specific provision Lifetime ECL credit impaired $'000	Total $'000
Balance at beginning of year	6,436	8,289	614	5,329	20,668
Changes due to financial assets recognised in the opening balance that have:	-	-	-	-	-
-Transferred to 12-months ECL - collective provision	4,339	(3,587)	(82)	(670)	-
-Transferred to Lifetime ECL not credit impaired - collective provision	(398)	1,594	(167)	(1,029)	-
-Transferred to Lifetime ECL credit impaired - collective provision	-	(24)	27	(3)	-
-Transferred to Lifetime ECL credit impaired - specific provision	(44)	(269)	(9)	322	-
Change in facility balance or coverage ratio	(2,990)	2,702	263	1,678	1,653
Write-offs from specific provisions	-	-	-	(374)	(374)
New and increased provisions (net of releases)	2	(1,037)	(93)	(1,147)	(2,275)
Balance at end of year	**7,345**	**7,668**	**553**	**4,106**	**19,672**

Collective Provision Sensitivity Analysis

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.

The calculation of the collective provision includes assumptions around future economic scenarios and the weightings given to each scenario are presented in the table below. Due to a heightened level of uncertainty in the economy with high inflation, falling house prices, sharply increasing interest rates, emerging COVID-19 variants and ongoing supply chain issues. There is now a higher chance of the 'Bad' scenario occurring and a decreased chance of the 'Good' scenario. The assumed economic scenario falls between the 2018-19 settings and the initial view of the impact of the pandemic in the 2020 financial year.

- Base scenario – no major changes in external factors, the future portfolio loss rate is similar to the historic development;
- Bad scenario – decreased collateral values and increased unemployment, resulting in the increased Loss Given Default (LGD) and increased roll-rates;
- Good scenario – increased collateral value and decreased unemployment, resulting in the decreased LGD and decreased roll-rates.

	2022			2021		
	Base	Good	Bad	Base	Good	Bad
Scenario weights	47.5%	5%	47.5%	55%	10%	35%
Loss Given Default (weighted average)	14%	11%	18%	12%	12%	15%
Other key variables						
- Roll rate increase/decrease	-	(10%)	20%	-	(10%)	20%

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

	2022		2021	
	Total collective provision	Impact $'000	Total collective provision	Impact $'000
100% Base	13,394	(2,172)	14,025	(1,314)
100% Good	10,695	(4,871)	13,755	(1,584)
100% Bad	18,243	2,677	18,011	2,672

15.2 Loans and advances at fair value through profit or loss	**2022 $'000**	**2021 $'000**
Breakthrough Loan (shared appreciation component)	49,775	41,884
Shared Equity Option Loan (shared appreciation component)	20,366	8,412
Seniors Equity Loan	75,519	76,985
Total loans and advances at fair value through profit or loss	**145,660**	**127,281**

The majority of 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

	2022 $'000	2021 $'000
Accrued interest on housing loans and advances	225	236
Shared Equity Fund for New Housing Construction receivable	561	-
Accrued interest receivable on derivatives	30	-
GST recoverable	26	35
Total other financial assets	**842**	**271**

NOTE 17 Intangible assets

See accounting policy in note 2.5.4.2.

	2022 $'000	2021 $'000
Software at cost	17,051	13,356
Accumulated amortisation	(8,839)	(7,094)
Total intangible assets	**8,212**	**6,262**
Carrying amount at 1 July 2021	**6,262**	**5,044**
Additions	3,603	2,473
Transfers between asset classes	92	-
Amortisation	(1,745)	(1,255)
Carrying amount at 30 June 2022	**8,212**	**6,262**

NOTE 18 Property, plant and equipment

Leasehold improvements	2022 $'000	2021 $'000
Leasehold improvements at cost (deemed fair value)	2,750	2,750
Accumulated amortisation	(1,899)	(1,624)
Total leasehold improvements	**851**	**1,126**
Other office and computer equipment		
Other office and computer equipment at cost (deemed fair value)	3,278	3,331
Accumulated depreciation	(2,757)	(2,362)
Total other office and computer equipment	**521**	**969**
Right of use buildings		
Right of use buildings (at cost)	9,854	9,959
Accumulated depreciation	(4,586)	(4,049)
Total right of use buildings	**5,268**	**5,910**
Right of use motor vehicles		
Right of use motor vehicles (at cost)	115	85
Accumulated depreciation	(59)	(62)
Total right of use motor vehicles	**56**	**23**
Total property, plant and equipment	**6,696**	**8,028**

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 2020	**1,393**	**839**	**6,483**	**23**	**8,738**
Additions – at cost (deemed fair value)	7	476	129	21	633
Disposals – at cost (deemed fair value)	-	(164)	-	-	(164)
Disposals – accumulated depreciation	-	162	-	-	162
Depreciation and amortisation	(274)	(344)	(702)	(21)	(1,341)
Carrying amount at 30 June 2021	**1,126**	**969**	**5,910**	**23**	**8,028**
Additions – at cost (deemed fair value)	-	44	80	54	178
Disposals – at cost (deemed fair value)	-	(5)	(185)	(24)	(214)
Disposals – accumulated depreciation	-	5	185	24	214
Depreciation and amortisation	(275)	(400)	(722)	(21)	(1,418)
Transfers between asset classes	-	(92)	-	-	(92)
Carrying amount at 30 June 2022	**851**	**521**	**5,268**	**56**	**6,696**

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, 2020-21) or 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 have 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

	2022 $'000	2021 $'000
Prepayments	827	581
Total other assets	**827**	**581**

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, 2020-21) or 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 2022

Recurring Fair Value Measurements	2022 $'000	Level 3 $'000
Leasehold improvements	851	851
Other office and computer equipment	521	521
Total recurring fair value measurements	**1,372**	**1,372**

Fair value measurements at 30 June 2021

Recurring Fair Value Measurements	2021 $'000	Level 3 $'000
Leasehold improvements	1,126	1,126
Other office and computer equipment	969	969
Total recurring fair value measurements	**2,095**	**2,095**

HomeStart's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period. During 2022 and 2021, 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 2022 and 2021. The following table is a reconciliation of fair value measurements using significant unobservable inputs (level 3).

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

Property, plant and equipment	2022 $'000	2021 $'000
Opening balance at the beginning of the period	**2,095**	**2,232**
Acquisitions	44	483
Disposals	-	(2)
Depreciation	(675)	(618)
Transfers between asset classes	(92)	
Carrying amount at the end of the period	**1,372**	**2,095**

NOTE 21 Payables

	2022 $'000	2021 $'000
Trade payables	617	1,189
Accrued administration expenses	428	603
Employment on-costs*	385	474
Accrued interest payable on borrowings	927	279
Accrued interest payable on derivatives	-	90
Accrued guarantee fee payable	663	720
Total payables	**3,020**	**3,355**

*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 an 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 their short-term nature.

NOTE 22 Borrowings and leases

Interest bearing liabilities

Short-term borrowings payable	2022 $'000	2021 $'000
Short-term borrowings	175,011	99,797
Short-term lease liabilities	717	659
Total short-term borrowings	**175,728**	**100,456**
Long-term borrowings payable		
Long-term borrowings	1,750,000	1,972,000
Long-term lease liabilities	6,198	6,862
Total long-term borrowings	**1,756,198**	**1,978,862**
Total interest bearing liabilities	**1,931,926**	**2,079,318**

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 statement of cash flows	2022 $'000	2021 $'000
Total cash outflow for leases	945	988

Maturity analysis of lease liabilities

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

	2022 $'000	2021 $'000
Within one year	717	659
Later than one year but not later than five years	3,317	3,130
Later than five years	2,881	3,732
Total	**6,915**	**7,521**

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 assesses 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 assesses 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.

NOTE 23 Employee benefits liability

	2022 $'000	2021 $'000
Accrued salaries	119	84
Annual leave	779	743
Long service leave	1,014	1,326
Total employee benefits	**1,912**	**2,153**

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 increased from 2021 (1.25%) to 2022 (3.50%).

The actuarial assessment performed by the Department of Treasury and Finance left the salary inflation rate at 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 $208,000 and employee benefits expense of $262,000. 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	2022 $'000	2021 $'000
Income tax equivalent payable	8,848	8,171
Total income tax equivalents payable	**8,848**	**8,171**

24.2 Provision for dividend	2022 $'000	2021 $'000
Dividend payable	2,288	9,726
Total provision for dividend	**2,288**	**9,726**

Pursuant to Section 26 of the *Urban Renewal Act 1995*, HomeStart must recommend to the Treasurer, that it pays a specified dividend or not pay a dividend, for the financial year, as it considers appropriate. The Treasurer may, 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 2022, the Treasurer approved payment of a dividend of 100% of after tax profit (100%, 2020-21). Based on the expected profit for the year, this amounted to a total dividend of $36.7 million in respect of the year ended 30 June 2022 ($25.0 million, 2020-21 - representing 80% of the approved dividend) that was paid to the Department of Treasury and Finance prior to the end of the financial year.

The actual dividend based on the payout ratio of 100% of actual after tax profit is $39.0 million ($34.7 million, 2020-21). The amount of dividend payable of $2.3 million ($9.7 million, 2020-21) is disclosed in note 24 as provision for dividend. HomeStart will pay this residual dividend amount of $2.3 million in respect of the financial year ended 30 June 2022 in June 2023.

NOTE 25 Other liabilities

25.1 Other liabilities	2022 $'000	2021 $'000
Workers compensation provision	110	41
Wyatt Benevolent Institution	2,193	2,192
Affordable Housing Fund (Starter Loan)	6,651	3,126
Shared Equity Fund for New Housing Construction	561	-
Make good provision	400	400
City of Salisbury	3	3
Total other liabilities	**9,918**	**5,762**

Supported by the Wyatt Trust, the Wyatt Loan is an interest and repayment free loan for 5 years of up to $10,000 to cover upfront costs (income and children dependent criteria).

The Starter Loan was established as part of the 2019-20 State Budget and expanded as part of the 2020-21 State Budget Housing Stimulus Measure. The Starter Loan is funded by the Affordable Housing Fund, which is administered by HomeStart. The Starter Loan is an interest and repayment free loan for 5 years of up to $10,000 to cover upfront costs for singles under $65,000 net household income and couples under $90,000 net household income.

The Shared Equity Fund for New Housing Construction was established by the South Australian Housing Trust as part of the Housing Construction Stimulus Package in Response to the COVID-19 Pandemic, approved by Cabinet in June 2020. The package included expanding HomeStart's existing Shared Equity Option loan to be available for construction of new homes. The arrangement involves the South Australian Housing Trust reimbursing HomeStart for its equity contribution on construction loans in exchange for any changes in the value of that equity investment.

25.2 Make good provision	2022 $'000	2021 $'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

Australian Prudential Regulation Authority (APRA) Prudential Standard (APS) 220 Credit Quality sets out required credit risk policies and procedures that Authorised Deposit-Taking Institutions (ADIs) must apply. Although not regulated by APRA, for the purposes of prudential financial management, HomeStart generally adopts APRA's frameworks where relevant. The updated APS 220 was early adopted in 2020-21 and the general reserve for credit losses was transferred back to retained earnings. Consequently, there is no entry to the general reserve for credit losses in 2021-22.

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:

	2022 $'000	2021 $'000
Within one year	860	900
Later than one year but not later than five years	1,628	213
Total capital commitments	**2,488**	**1,113**

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:

	2022 $'000	2021 $'000
Within one year	123	123
Later than one year but not later than five years	-	123
Total commitments	**123**	**246**

HomeStart's notable software licence commitments in 2022 and 2021 are in relation to the 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 $115.8 million ($172.7 million, 2020-21).

Since a number of 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 $61.8 million ($68.5 million, 2020-21).

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 the following transactions with the SA Government and its departments and agencies:

	Transaction values for the year ended 30 June 2022 $'000	Transaction values for the year ended 30 June 2021 $'000
Interest expense	(14,129)	(12,695)
Other income - CSO subsidy	7,964	7,553
Other expenses - external auditor's remuneration	(175)	(173)
Other expenses - insurance	(129)	(112)
Government guarantee fee	(19,655)	(22,937)
Income tax equivalents expense	(16,716)	(14,882)

	Balance as at 30 June 2022 $'000	Balance as at 30 June 2021 $'000
Financial investments - Wyatt	1,272	1,057
Other financial assets - accrued interest	30	-
Payables - accrued interest & guarantee fee	(1,590)	(1,089)
Derivative financial instruments	22,563	(1,269)
Borrowings	(1,925,011)	(2,071,797)
Income tax equivalents payable	(8,848)	(8,171)
Provision for dividend	(2,288)	(9,726)
Other liabilities - Wyatt and AHF Funds	(9,405)	(5,359)

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:	2022 $'000	2021 $'000
Cash and Cash equivalents disclosed in the Statement of Financial Position	7,434	5,565
Balance as per Statement of Cash Flows	**7,434**	**5,565**

See accounting policy in note 2.5.1.

30.2 Reconciliation of profit for the year to net cash provided by operating activities	2022 $'000	2021 $'000
Profit for the year	**39,004**	**34,726**
Add/less non cash items		
Depreciation and amortisation expense of non-financial assets	3,163	2,596
Unrealised change in fair value of loans	(14,350)	(4,883)
Bad debts written-off	290	765
Fees applied directly to loan accounts	(2,307)	(2,616)
Movement in assets and liabilities		
(Decrease) increase in provision for impairment	(996)	(2,719)
(Decrease) increase in deferred loan fee income	(873)	(724)
(Increase) decrease in deferred loan fee expense	(59)	(1,052)
(Decrease) increase in fair value adjustment	(1,127)	(1,812)
(Decrease) increase in payables and other liabilities	3,545	2,848
(Decrease) increase in provision for employee benefits	(241)	(282)
(Decrease) increase in income tax equivalents payable	677	3,906
(Increase) decrease in financial and other assets	19	49
Net cash provided by operating activities	**26,745**	**30,802**

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 2020	**651,151**	**1,379,480**	**1,205**	**152,158**	**2,183,994**
Changes from financing cash flows					
Proceeds from borrowings	-	600,000	-	-	600,000
Dividends paid to SA Government	-	-	8,521	(34,726)	(26,205)
Repayment of leases	(658)	-	-	-	(658)
Repayment of borrowings	(550,696)	-	-	-	(550,696)
Total changes from financing cash flows	**(551,354)**	**600,000**	**8,521**	**(34,726)**	**22,441**
Non financing cash flow movements in lease liabilities	659	(618)	-	-	41
Total equity-related other changes	-	-	-	45,442	45,442
Closing balance at 30 June 2021	**100,456**	**1,978,862**	**9,726**	**162,874**	**2,251,918**
Changes from financing cash flows					
Proceeds from borrowings	75,214	300,000	-	-	375,214
Dividends paid to SA Government	-	-	(7,438)	(39,004)	(46,442)
Repayment of leases	(739)	-	-	-	(739)
Repayment of borrowings	-	(522,000)	-	-	(522,000)
Total changes from financing cash flows	**74,475**	**(222,000)**	**(7,438)**	**(39,004)**	**(193,967)**
Non financing cash flow movements in lease liabilities	797	(664)	-	-	133
Total equity-related other changes	-	-	-	39,004	39,004
Closing balance at 30 June 2022	**175,728**	**1,756,198**	**2,288**	**162,874**	**2,097,088**

NOTE 31 Financial risk management

31.1 Overview

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

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

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

HomeStart's Board 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 exists to review and recommend approval of individual loan applications which will result in an aggregate exposure to the borrower ≥ $3 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 and 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.

<u>Lending policies</u>

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.

<u>Collateral</u>

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:

	2022 $'000	2021 $'000
Past due but not specifically impaired		
Gross carrying value	81,436	91,619
Fair value of collateral	158,227	143,580
Specifically Impaired		
Gross carrying value, before specific provision for impairment	32,230	40,313
Unearned income on impaired loans	(1,062)	(1,676)
Lifetime ECL credit impaired - specific provision	(4,106)	(5,329)
Net loans and advances under specific provision	**27,062**	**33,308**
Fair value of collateral	42,977	43,795

Concentration of counterparty and geographic risk

HomeStart is not materially exposed to any individual customer. HomeStart is restricted under the Urban Renewal (HomeStart Finance) Regulations 2020 to only lend in South Australia and is therefore exposed to the property market in this state.

Approximately 17% (17%, 2020-21) 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, 34% (33%, 2020-21) 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.

(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, Shared Equity Option and Seniors Equity 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 $1.950 billion ($2.122 billion, 2020-21).

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

	2022				
	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	Stage 3 Specific Provision Lifetime ECL credit impaired $'000	Total $'000
Low risk	1,394,685	116,966	1,073	15,009	1,527,733
Moderate risk	285,023	113,106	1,426	10,520	410,075
High risk	16,131	19,519	731	7,114	43,495
Gross loans and advances	**1,695,839**	**249,591**	**3,230**	**32,643**	**1,981,303**
Fair value adjustment					(5,911)
Deferred loan fee income					(9,970)
Deferred loan fee expense					5,155
Unearned income on impaired loans					(1,062)
Provision for credit impairment					(19,672)
Net loans and advances					**1,949,843**

	2021				
	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	**Stage 3** Specific Provision Lifetime ECL credit impaired $'000	**Total** $'000
Low risk	1,468,517	217,978	2,543	16,836	1,705,874
Moderate risk	286,439	95,016	1,306	15,387	398,148
High risk	20,500	23,436	507	8,978	53,421
Gross loans and advances	**1,775,456**	**336,430**	**4,356**	**41,201**	**2,157,443**
Fair value adjustment					(7,038)
Deferred loan fee income					(10,843)
Deferred loan fee expense					5,096
Unearned income on impaired loans					(1,676)
Provision for credit impairment					(20,668)
Net loans and advances					**2,122,314**

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

	2022 $'000	**2021** $'000
<30 days	67,069	75,705
30 – 59 days	10,106	9,212
60 – 89 days	1,012	2,327
90 – 179 days	1,784	3,006
>180 days	1,465	1,369
Total	**81,436**	**91,619**

(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 $3.5 million as at 30 June 2022 ($4.6 million, 2020-21).

(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 $0.41 million as at 30 June 2022 ($1.02 million, 2020-21).

31.2.2 Derivative financial assets/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 2022 and 30 June 2021, HomeStart did not have any exposure to credit risk arising from derivative financial liabilities.

	2022 $'000	2021 $'000
Derivative financial instruments	**22,563**	**(1,269)**
Swap income receivable	241	2
Swap expense payable	(211)	(92)
Net receivable (note 16) / (payable) (note 21)	**30**	**(90)**

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 Management 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 2022 ($2.460 billion, 2020-21).

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 2022 (40%, 2020-21) of total debt outstanding.

% of debt subject to refinancing in the next 12 month period	**2022**	**2021**
At 30 June	9.09%	4.82%
Average for the period	10.53%	9.36%
Maximum for the period	28.17%	31.92%
Minimum for the period	3.46%	4.31%

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

2022 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	3,020	-	-	-	-	3,020	3,020
Borrowings and leases	178,558	7,668	48,037	1,546,364	418,802	2,199,429	1,931,926
Other financial liabilities	-	4,424	6,712	-	-	11,136	11,136
Total liabilities (contractual maturity dates)	**181,578**	**12,092**	**54,749**	**1,546,364**	**418,802**	**2,213,585**	**1,946,082**

2021 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	3,355	-	-	-	-	3,355	3,355
Borrowings and leases	102,325	5,468	23,499	1,502,026	563,818	2,197,136	2,079,318
Other financial liabilities	-	4,085	13,810	-	-	17,895	17,895
Total liabilities (contractual maturity dates)	**105,680**	**9,553**	**37,309**	**1,502,026**	**563,818**	**2,218,386**	**2,100,568**

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
2022	106	(223)	(5,379)	(12,841)	(665)	(19,002)	22,563
2021	(188)	(311)	(1,216)	(1,356)	(100)	(3,171)	(1,269)

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 regular 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.

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 2022, HomeStart had floating/fixed swaps with a notional value of $658.0 million ($526.0 million, 2020-21) with fixed rates varying between 0.06% and 4.55% (0.03% and 4.84%, 2020-21).

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

(b) *Market rate risk*

HomeStart's 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; and
- 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 2022, a $23.8m gain ($3.2 million gain, 2020-21) 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.

2022	Carrying amount $'000	-10% $'000	+10% $'000
SAFA Cash Management Fund (Wyatt)	1,272	(127)	127
Total increase/(decrease) in profit before tax and equity	**1,272**	**(127)**	**127**

2021	Carrying amount $'000	-10% $'000	+10% $'000
SAFA Cash Management Fund (Wyatt)	1,057	(106)	106
Total increase/(decrease) in profit before tax and equity	**1,057**	**(106)**	**106**

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) based on the customers age at origination 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.

	2022 Carrying amount $'000	-5%	+5%	2021 Carrying amount $'000	-5%	+5%
Breakthrough Loan	49,775	(3,023)	3,018	41,884	(2,666)	2,689
Shared Equity Option Loan	20,366	(1,019)	1,017	8,412	(421)	421
Total increase/(decrease) in profit before tax and equity		**(4,042)**	**4,035**		**(3,087)**	**3,110**

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 the 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 15).

(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 2022, 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.

		2022		2021	
Financial assets	**Category**	**Carrying value $'000**	**Fair value $'000**	**Carrying value $'000**	**Fair value $'000**
Cash and cash equivalents	N/A	7,434	7,434	5,565	5,565
Investments	Amortised cost	1,272	1,272	1,057	1,057
Derivative financial instruments	Hedge accounting (fair value through OCI)	22,563	22,563	-	-
Loans and advances [1]	Amortised cost	1,949,843	1,928,991	2,122,314	2,122,940
Loans and advances	FVTPL	145,660	145,660	127,281	127,281
Other financial assets	Amortised cost	842	842	271	271
Total financial assets		**2,127,614**	**2,106,762**	**2,256,488**	**2,257,114**
Financial liabilities					
Borrowings and Leases [2]	Amortised cost	1,931,926	1,945,659	2,079,318	2,100,096
Derivative financial instruments	Hedge accounting (fair value through OCI)	-	-	1,269	1,269
Payables	Amortised cost	3,020	3,020	3,355	3,355
Income tax equivalents payable	Amortised cost	8,848	8,848	8,171	8,171
Provision for dividend	Amortised cost	2,288	2,288	9,726	9,726
Other liabilities	Amortised cost	9,918	9,918	5,762	5,762
Total financial liabilities		**1,956,000**	**1,969,733**	**2,107,601**	**2,128,379**
Net financial assets		**171,614**	**137,029**	**148,887**	**128,735**

[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 2022.

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 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 an independent property valuation data provider using an Automated Valuation Method (AVM). Prior to accepting an automated valuation for use, Management reviews the statistical probability of error provided by AVMs to ensure that the risk of material misstatement to the financial statements is unlikely.

When Management judges that valuations determined using an AVM are not sufficiently accurate, valuations provided by either the Valuer-General or another independent valuer are used.

An estimated 91.8% (94.1%, 2020-21) of these loans are revalued using AVMs, 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.

2022	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets measured at fair value				
Derivative financial instruments	-	22 563	-	22 563
Loans and advances at FVTPL	-	-	145 660	145 660
Total financial assets measured at fair value	**-**	**22 563**	**145 660**	**168 223**

2021	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets measured at fair value				
Loans and advances at FVTPL	-	-	127 281	127 281
Total financial assets measured at fair value	**-**	**-**	**127 281**	**127 281**
Financial liabilities measured at fair value				
Derivative financial instruments	-	1 269	-	1 269
Total financial liabilities measured at fair value	**-**	**1 269**	**-**	**1 269**

32.4 Reconciliation of Level 3 fair value measurements

	2022 $'000	**2021 $'000**
Fair value at 1 July	**127,281**	**127,874**
Breakthrough Loan discharges	(4,384)	(6,201)
Shared Equity Option Loan settlements	11,190	2,955
Shared Equity Option Loan discharges	(1,311)	(430)
Seniors Equity Loan settlements and drawdowns	9,681	6,882
Seniors Equity Loan discharges and payments	(11,147)	(8,682)
Unrealised change in fair value of loans (notes 12 and 5)	14,350	4,883
Fair value at 30 June	**145,660**	**127,281**

Note 31.4.4(c) discloses sensitivity of HomeStart's profit to movements in the values of properties used as collateral for a Breakthrough 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 is not expected to continue to materially impact the operations of HomeStart in 2022-23, however this could change if the emergence of new COVID-19 variants results in a return to major activity restrictions. As at 30 June 2022, there were no loans on a negotiated payment arrangement as a result of COVID-19.

The financing of house and land packages represents a significant proportion of HomeStart's new lending. Overall activity levels were lower in 2021-22 due to the bring forward of activity into 2020-21 by Commonwealth Government policy settings arising from the pandemic, with activity expected to return to a more normal level in 2022-23.

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 2022.

In my opinion, the accompanying financial report gives a true and fair view of the financial position of HomeStart Finance as at 30 June 2022, 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 1987* and Australian Accounting Standards.

The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2022
- a Statement of Financial Position as at 30 June 2022
- a Statement of Changes in Equity for the year ended 30 June 2022
- a Statement of Cash Flows for the year ended 30 June 2022
- notes, comprising material 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 the 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 the 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 is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Chief Executive Officer is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

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 28(4) of the *Urban Renewal Act 1995*, I have audited the financial report of HomeStart Finance for the financial year ended 30 June 2022.

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
- conclude on the appropriateness of the Chief Executive Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify the opinion. My conclusion is based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause an entity to cease to continue as a going concern
- 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 communicate 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 identify during the audit.

Andrew Richardson
Auditor-General

23 September 2022

Whether you're a first home buyer or an existing home owner looking for a fresh start, HomeStart could help you **get into your own home, sooner.**

Government of South Australia

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