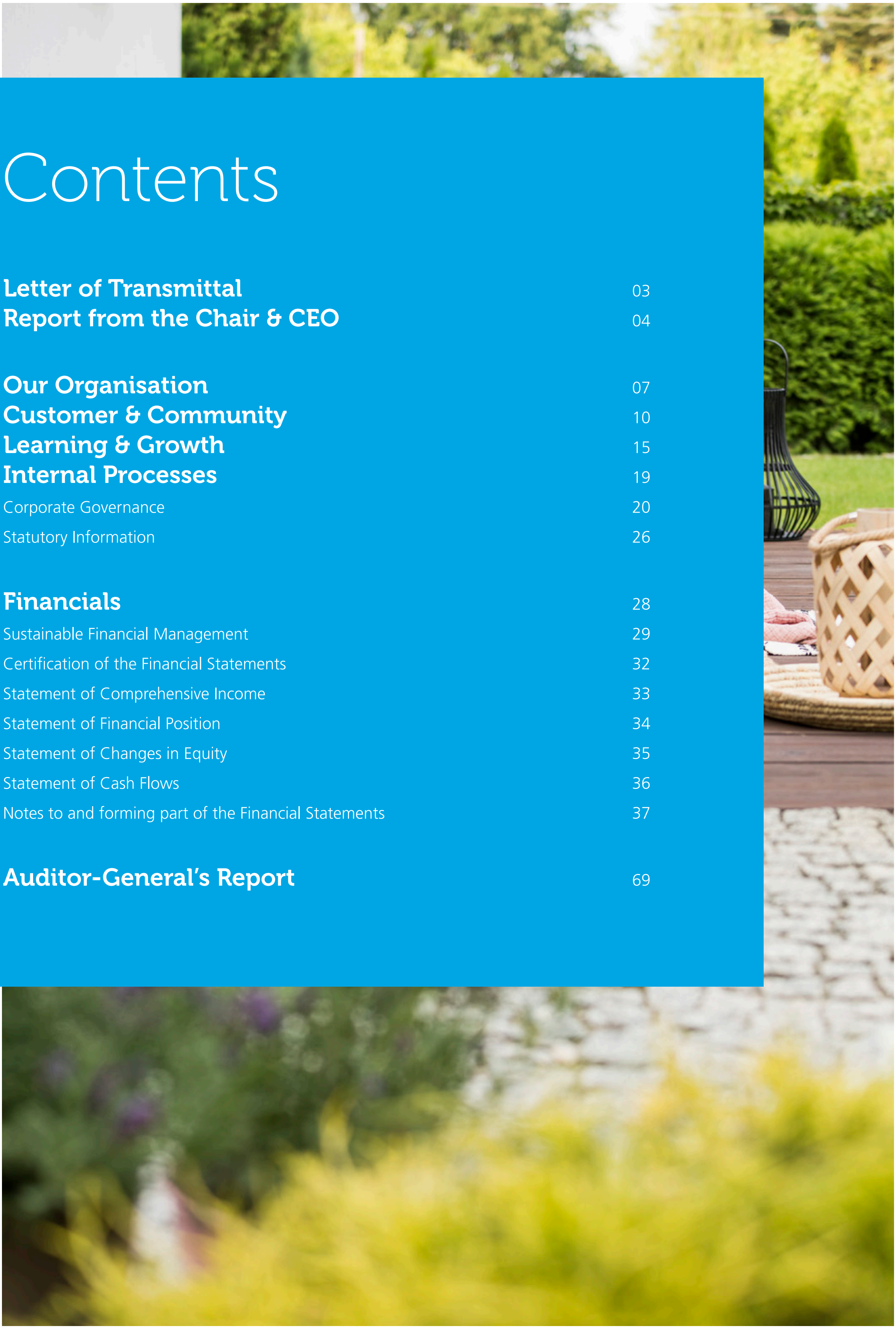
Annual Report

2020 | 21

Government of South Australia

HomeStart FINANCE



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Letter of Transmittal

24 September 2021

The Hon. Rob Lucas MLC
Treasurer of South Australia
Parliament House
North Terrace
Adelaide SA 5000

Dear Treasurer,

HomeStart Finance 2020-21 Annual Report

It gives me great pleasure to present a summary of HomeStart's achievements over the 2020-21 financial year.

HomeStart continued to make home ownership a reality for more South Australians in more ways, assisting 1 776 households to purchase their own home.

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

Yours sincerely,

Jim Kouts
Chair
HomeStart Finance

Report from the **Chair & CEO**

In an extraordinary financial year across global markets, we, as South Australians, have been blessed with relative stability in the face of COVID-19. With support from the Federal and State governments intent on keeping the economy buoyant through fiscal and monetary stimulus, HomeStart has been able to maintain its laser-sharp focus on helping more South Australians into home ownership, when many other communities have struggled.

We are learning to live with the threat of COVID-19 and potential lockdowns and have met the opportunities the pandemic has presented by ensuring we can best support our customers, whether that has been through payment deferrals or adapting our products and services to suit the times.

HomeStart's ability to provide support to our customers in the face of adversity has been a rewarding experience for our team, and the results are mirrored in our 2020-21 financial results.

We have been able to help 1 776 households into their own homes this financial year, fulfilling our mission of making home ownership a reality for more South Australians. Since our inception in 1989, we have helped more than 79 000 people – a figure which will continue to grow for many years to come. Total lending for the year reached an all-time high of $589 million, with the loan portfolio rising slightly from $2.23 billion in 2019-20 to $2.28 billion in 2020-21.

HomeStart achieved a record profit before tax of $49.6 million. Whilst this is a significant increase on prior years, factors such as reduced funding costs, write back of loan provisions from the previous years and the growth in the property market have created a unique set of circumstances which have contributed to this result. That said though HomeStart has still exercised prudent management of administrative expenses across the entire business.

Our return to government during the financial year exceeded $61.3 million, after returning $60.1 million the previous financial year. This year marks our 31st year in business, with our direct financial contribution to the State Government now reaching $785.7 million.

Our ability to help such a high number of people onto the home ownership ladder has been helped by several factors, including the continuing record-low interest rates, the Federal Government's HomeBuilder Grant and the State Government's First Home Owner Grant, a buoyant real estate market, for some early access to superannuation as well as a tight rental market where rising rents have reminded people that it might be time to put their rent money towards meeting an ownership goal.

HomeStart has been able to work with customers to maximise the number of people able to get into homes, by enabling our customers to use both their HomeBuilder and First Home Buyer grants as a deposit. This has not been possible with many traditional bank lenders.

HomeStart settled 683 construction loans in 2020-21, an increase of 36% on the previous financial year. Of those in the construction sector, 87% were first home buyers. Helping someone to finance the building of a new home helps more than just that single person, couple, or family – it helps the entire South Australian economy. From carpenters, tilers, brickies and all the trades associated with building a house, economic modelling has shown 940 South Australian jobs were supported as a direct economic benefit of those construction loans.

HomeStart has been pleased to see the number of Graduate Loans being financed increasing, growing from 663 in 2019-20 to 805 in 2020-21. Since the introduction of the loan in 2002, HomeStart has helped nearly 6 400 graduates buy a home with a deposit as low as 3%.

Loans originated by our network of mortgage brokers represented 74% of our loans, a strong increase from the previous year. The broker network continues to be an integral part of our distribution strategy and growing the reach of HomeStart across SA.

Our 90-day arrears reduced from 0.62% to 0.44%, reflecting a sound approach to credit management but at the same time supporting the needs of our customers and adopting an empathetic approach to their particular circumstances.

Market conditions and HomeStart Finance

The battle against COVID-19 is one which we will continue to fight for a long time to come. Having said that, the ability for our customers to access grants during a prolonged period of economic stimulus has enabled HomeStart to continue to grow and to support an increasing number of people achieve their housing goals.

In the course of the financial year we were able to help 783 customers who required loan deferrals because of COVID-19, however by the end of December, virtually all those customers had returned to making regular payments. We have done everything we can to keep our customers in home ownership, at a time when future uncertainty remains high.

Reflecting on the year that was, we have been able to meet our mission to help more South Australians into home ownership who might not have been able, and we have strengthened HomeStart's position through exceptional financial results, strengthening our contribution to the SA economy. This has been assisted through the foresight of the Federal and State governments in providing economic stimulus to the housing and construction industries.

Looking ahead

HomeStart has had an exceptional year, with our ability to help even more South Australians rising to the fore. However, we acknowledge that 2020-21 has been unique and the circumstances which have combined to create ideal economic conditions to enter the housing market are unlikely to continue.

With the culmination of our 2018-2021 Strategic Plan, the Board approved a fresh plan for 2021-2024. Whilst this plan continues the excellent work of those prior, the Board has reaffirmed its commitment to continued investment in technology which support our aspirations of high-quality customer experience. I look forward to monitoring our progress against the new plan in the knowledge that this investment ensures HomeStart maintains its relevance in the mortgage lending industry and to our current and prospective customers.

I would like to thank our customers for turning to us in times of need and allowing us to give them the hand up they deserve. I also wish to thank our Board, CEO (John Oliver) and leadership teams for showing the way and standing strong when faced with adversity. Great leadership leads to great engagement and teamwork, allowing our employees to help each customer seeking support or advice. Our CEO, in particular, showed all his experience in guiding the business at this critical time. As you will see in his report, he has decided to step back from full-time corporate life at the end of 2021 and I wish him further success.

We look forward to helping more South Australians as we head into another year of hope and opportunity.

Jim Kouts
Chair

I am very fortunate that every day I see, hear, and feel our people's passion for the work they do at HomeStart in "making home ownership a reality for more people in more ways". Their commitment to our purpose, their ability to adapt to changing circumstances throughout a very challenging year, and their resilience has been most commendable. I thank all our team for their contribution to our success by making HomeStart a great place to work, and for their empathetic and genuine approach to assisting our customers.

Our business came under significant pressure during the year, initially due to COVID-19 and customer loan repayment deferral requests, followed by the government economic stimulus associated with the HomeBuilder Grant which created significantly heightened levels of enquiries and construction loan applications. Notwithstanding, HomeStart has had a very successful year with a record $589 million in total lending, a record 683 construction loans settled and finally a record profit of $49.6 million. Whilst we can be proud of record achievements, and we are, our primary measure of success is, simply put, the number of loans that are settled each year – the real outcomes. With 1 776 loans settled, it was indeed a very good year and well ahead of our initial expectations at the beginning of the year.

Through the year we continued to innovate across many fronts to maintain our relevance and our market niche. We completed many projects aimed at ensuring and improving our long-term sustainability. Enhancements to our Shared Equity Option which streamlined and simplified the product, and the removal of our Loan Provision Charge (LPC) which was similar in concept to Lenders Mortgage Insurance (LMI) saving customers several thousand dollars by reducing up-front costs, are most noteworthy.

Innovation continued when HomeStart put itself in a unique position to support customers take greater advantage of the Federal Government HomeBuilder Grant by treating the grant as a deposit, thereby creating the opportunity for home ownership, unlike many other financial institutions. This approach contributed significantly to the record number of construction loans settled.

Following its announcement in the 2019-20 State Budget, we have been offering the Starter Loan, which this year allowed us to help 378 low-to-moderate income earners into home ownership, representing $114.3 million in new lending. To date, the Starter Loan has supported 488 new homeowners and been very successful in facilitating home ownership. Our aim in the coming year is to seek to increase the loan's capacity, while at the same time increasing the State Government's commitment to affordable housing across our suburbs.

Brokers continued to be an important part of our distribution network and this year contributed 74% of all new loans, up from 64% the previous year. During the year we welcomed Mortgage Choice to our broker panel, created a specialist team to assist with the processing of broker loans, and introduced a fast-track credit assessment process for our high-volume brokers. We also upgraded our broker website to simplify processes, receiving very positive feedback along the way. Elizabeth James won the MFAA State Award as 'Best BDM Lender/Support Service Provider', and Scott Hills won the Better Business Awards 'Best Lender BDM (Non-Bank)' category. This is great industry recognition of Elizabeth and Scott and reinforces the quality of people we have on our team.

Whilst it was a disrupted year in many ways, our commitment to the community remained strong through sponsorships and events. This included the Adelaide 36ers Junior Community Program which was a great success, a number of family events in conjunction with Zoos SA, TAFE SA Fashion and Costume Graduates Fashion Parade, Bhutanese Community of SA cultural day and Bengali New Year 1428 with the Bangladeshi community. In addition, several Home Buyer seminars were conducted through the year.

Wellbeing is at the forefront of everything we do when it comes to our people. Our Wellbeing Team continued to prioritise their physical and mental health, through in-house events and activities, information sessions and fundraising activities. We sponsored our employees in the Corporate Cup, finishing 8th – their best result yet, the Stadium Stomp running up a gruelling 6 000 steps at Adelaide Oval, the Mercer SuperCycle 7-day 1 000km cycling event, Life Be in It Bocce in the Park, and the Mother's Day Classic walk. We distributed bowel cancer screening kits to employees and arranged for onsite flu vaccinations.

We raised funds or donated goods for Hutt Street Centre (Christmas hams), Catherine House, Ronald McDonald House, St Vincent De Paul via the HomeStart Christmas Wishing Tree, collected blankets for the Salvation Army and Department of Child Protection for delivery to homeless young people, Cancer Council's Biggest morning tea, R U OK? Day, Jodie Lee Foundation, Black Dog Institute, Sammy D Foundation, and the Leukaemia Foundation.

Recognising the importance of flexibility, changing lifestyles and workplace preferences, we also changed our workplace policies to allow all employees to work from home up to two days a week and over 50% of our people have taken up that opportunity.

Our two employee engagement surveys based on the Ascender HCM Employee Lifecycle Engagement Survey (the PULSE to us), attracted participation rates in excess of 80% and exceeded the Global Financial Industry Average which we use as our benchmark – a pleasing outcome given the ongoing disruption and uncertainty experienced through the year.

As the financial year and our Strategic Plan for 2018-21 came to an end, we developed and launched our Strategic Plan for 2021-24, reaffirming our commitment to four key themes - culture and capability, customer experience, product and credit innovation and business processes and technology. It is a deceptively simple plan in the form of a one-page strategy map, underpinned by the balanced scorecard, with organisational key performance indicators that are translated into employee key performance indicators, thereby aligning everyone and everything to the plan. It is a piece of work of which we are all immensely proud and sets the scene for the next few years.

At the end of the year, I will be stepping back from full time corporate life and this will be my last Annual Report. I would like to thank the Board for their support, guidance, and wisdom, not only this year with all its unique challenges, but over my entire time as HomeStart's CEO. The leadership and support provided to me by the Executive team has been valued and greatly appreciated. We have been a very aligned team, yet importantly a team that can also debate issues and challenge each other's perspectives. It has been a privilege to lead the HomeStart team for the past 12 years; I take many fond memories with me and can reflect on with pride, the achievements, and outcomes we have created together.

John Oliver
Chief Executive Officer

Our Organisation

Our reason for **being**

HomeStart's reason for being is to make home ownership a reality for more people in more ways. After 31 years of operation, this purpose remains clear and represents an ongoing source of value for the South Australian Government and state.

Our **organisation**

As a statutory corporation operating under the Urban Renewal (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, as well as facilitating finance for the development of community housing and aged care residential accommodation or facilities.

SA Government **priorities**

During 2020-21 HomeStart reported to the Treasurer, the Hon. Rob Lucas MLC.

HomeStart seeks to actively contribute towards broader State Government priorities, providing South Australians with affordable home ownership options through the provision of innovative and targeted housing finance.

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

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

Our **strategy 2018-21**

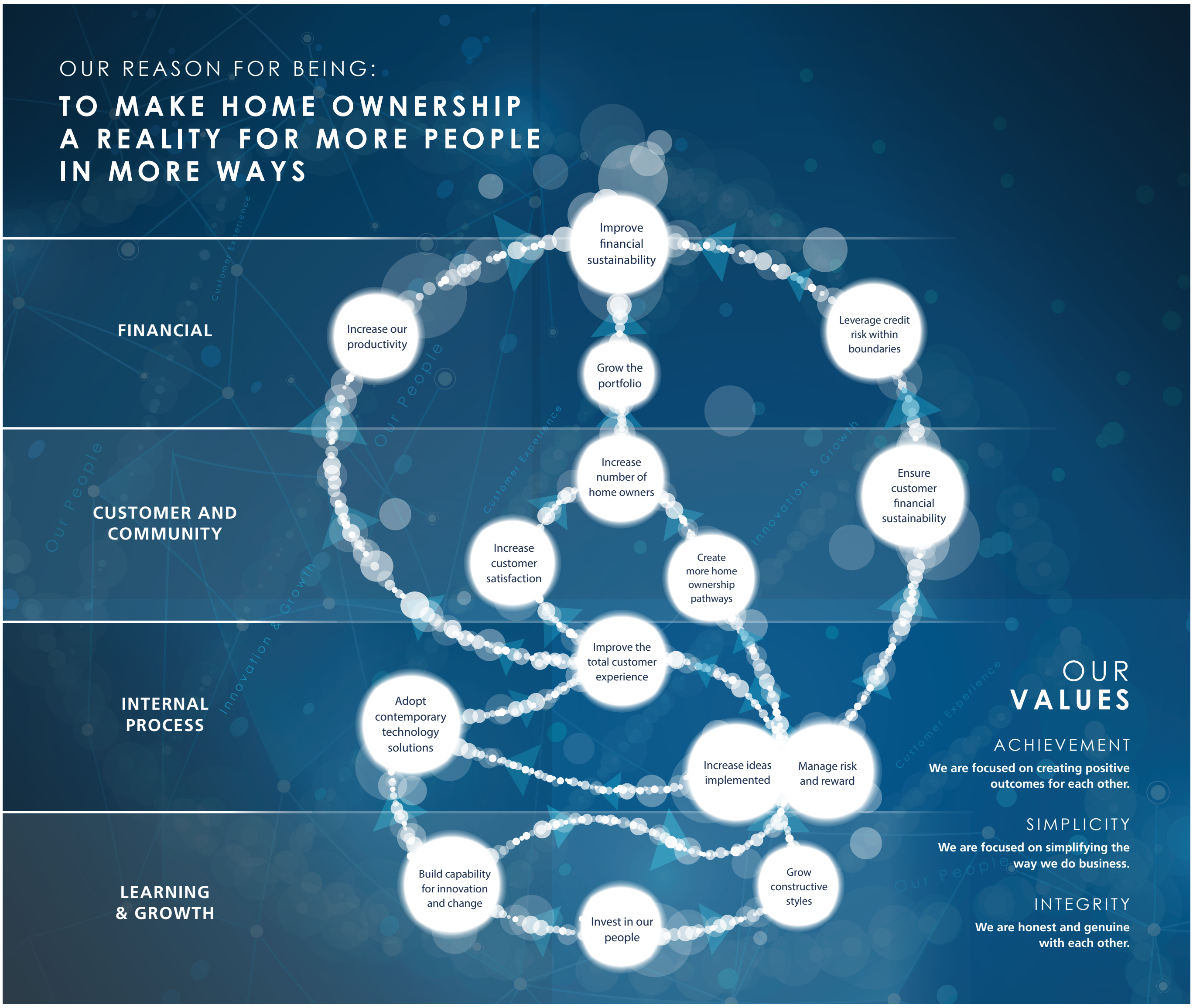
HomeStart's Strategic Plan is summarised by a strategy map (over page), which shows the logical progression from developing our people and improving our processes, to creating home ownership outcomes for customers and the community, and achieving financial sustainability over the long term.

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

During the year, HomeStart's Board approved an updated strategic plan for the period 2021-24.

Our strategy 2018-21

Our strategy map tells the story of how we intend to achieve our strategic objectives:



Customer & **Community**

Our customers

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

- first home buyers starting out
- graduates looking to buy their own home
- migrants from more than 110 countries setting permanent roots in South Australia
- single parents starting over
- moderate income households in need of a borrowing boost
- seniors looking to fund lifestyle changes with a reverse mortgage
- singles moving out of their parents' home
- public housing tenants moving out of rental accommodation.

Of the 1 776 households we have helped in 2020-21:

- 1 303 were first home buyers
- 70% were leaving private rental
- 33% bought homes in the northern fringes of metropolitan Adelaide, while 17% bought homes in regional areas
- 683 built new homes, representing 38.5% of new lending
- the average loan size was $329 089, an increase of 3.6% on last financial year
- the average purchase price was $365 176
- 82% would not have been able to secure finance from a mainstream lender at the time of their application.

Over 31 years we have helped more than 79 000 South Australians to buy their own home.

Lending

The South Australian housing market grew significantly through the 2020-21 financial year. CoreLogic RP Data Daily Home Value Index reports that the Adelaide detached housing market grew at 15.2% year-on-year, slightly outpacing the five Capital City Aggregate growth of 14.6%. Adelaide currently has the second-lowest median dwelling value of any capital city in Australia at $508 712.

Overall, HomeStart settled 1 776 loans in 2020-21, representing an increase of 418 loans from the previous year. The Federal Government HomeBuilder Grant was used to stimulate the construction sector. As a result, HomeStart's construction loans increased by 36.3% to 683 loans, representing 38.5% of total new lending.

HomeStart strengthened its market position as a unique, niche lender in an uncertain economic environment due to innovative product offerings, and provided a quick response to demand from South Australian's seeking to utilise the HomeBuilder Grant.

Our **loans**

HomeStart has a range of innovative home loans that enable customers to borrow more or get started sooner with less upfront costs.

Graduate Loan

Since 2002, the Graduate Loan has helped 6 368 graduates buy a home with a deposit from 3% plus upfront costs, with loans totalling more than $2 billion. The Graduate Loan is available to graduates with Certificate III and above qualifications. HomeStart settled a total of 805 Graduate Loans in 2020-21, an increase of 142 from the previous year.

Low Deposit Loan

The Low Deposit Loan offers a 3% deposit option for home buyers to purchase an existing home in metropolitan South Australia. A total of 10 Low Deposit Loans were settled this financial year.

HomeStart Home Loan

The HomeStart Home Loan offers flexible repayment and interest rate options to assist customers with the purchase of an existing home, refinance their current home, build a new house or purchase land for a later build. Its versatility means it can help a wide range of customers, with 914 loans settled in 2020-21 valued at more than $251 million.

Shared Equity Option

HomeStart is regarded as one of Australia's most experienced shared equity lenders, with almost 15 years' experience. The Shared Equity Option, simplified and relaunched in May 2021, provides low to moderate income customers with a significant buying boost of up to 25% of the purchase price without increasing their ongoing commitments. In exchange, the customer agrees to share a pro-rata portion of capital gains or losses on the property when it is eventually sold. A total of 36 Shared Equity Option loans valued at almost $3 million were settled in 2020-21. This has helped facilitate a further $12.3 million in lending.

Advantage Loan

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

In 2020-21, 310 Advantage Loans were settled (a 20.2% increase on previous year), valued at $8.4 million. Since inception, the Advantage Loan has helped 14 005 households achieve their home ownership aspirations.

Starter Loan

The Starter Loan is an initiative announced in the 2019 South Australian State Budget and supported by the Affordable Housing Fund. Launched in September 2019, it is a secondary loan of up to $10 000 designed to help cover the upfront costs of buying or building a home.

In 2020-21, there were 378 Starter Loans settled, valued at $3.4 million. This has helped facilitate a further $114.3 million in lending. Since the launch of the Starter Loan, it has assisted 488 South Australian's achieve home ownership.

Wyatt Loan

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

The Wyatt Trust is a not-for-profit organisation dedicated to reducing financial disadvantage and improving the quality of life for South Australians. Since 2007, 411 customers have accessed the Wyatt Loan. In 2020-21, 12 Wyatt Loans were settled to the value of $107 750.

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

Loans for construction

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

This area of HomeStart's lending activities has grown to 683 loans in 2020-21, representing more than $246 million of lending this year, and 87% of these customers were first home buyers. This is a very strong result and has supported 940 full time jobs in the construction industry.

Seniors Equity Loan

The Seniors Equity Loan is a reverse mortgage product for over 60s to unlock the equity in their home. This helps seniors fund lifestyle expenses, home renovations or to supplement their income. A total of 47 Seniors Equity Loans were settled this financial year at a value of $4 million.

Distribution

The broker channel has continued to grow with the focus on improving our efficiency and service. During 2020-21, brokers settled 1 320 new loans worth $445.1 million, representing 74% of new lending. HomeStart now has 724 accredited brokers that can offer a range of loans, with 117 new brokers accredited this financial year.

HomeStart has three offices located in Adelaide, Morphett Vale and Salisbury. The HomeStart offices settled 456 loans for $127.8 million in the 2020-21 financial year, including 159 loans valued at $45.3 million from the Adelaide office and 297 loans valued at more than $82 million from the South and North offices combined.

Customer service

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

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

In 2020-21, HomeStart's average NPS score was 41. New research by Roy Morgan Single Source (Australia) May 2016 – April 2021* shows this score to exceed the financial services industry average of 10.1.

In the market, HomeStart launched a new campaign known as 'Closer' which targeted Young Families, Up and Coming and Single Parents.

This campaign is designed to take people on a journey where buying a home could be 'closer than they think'. The campaign continues to support the overarching strategy of 'making home ownership a reality for more people in more ways'.

* http://www.roymorgan.com/findings/8739-banking-nps-customer-satisfaction-april-2021-202107120554

The campaign focused on brand building, via television, radio, bus backs, tram advertising, digital advertising and social media engagement, along with leveraging partnerships and events. As a result, HomeStart successfully retained strong brand awareness levels at 80%.

Product-focused marketing campaigns about the Starter Loan, the Graduate Loan and Fixed Interest Rates were executed, designed to raise brand awareness and consideration among both the first home buyer and non-first home buyer segments.

The corporate website attracted 214 099 visitors during 2020-21, of which 75% were new visitors. The majority of users accessed the site via their mobile device (65%) followed by desktop (32%) and tablet (3%).

HomeStart's Facebook community of potential and current customers increased from 13 097 followers to 13 630, which is a 3.9% increase. Further, 2 611 users were directed to the HomeStart corporate website from Facebook.

Community contribution and social responsibility

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

HomeStart's aim is to have a positive and sustainable impact on customers, people, the community and the environment.

Seminars

HomeStart hosts free home buyer seminars to help educate the public on the home buying process. In 2020-21 HomeStart held 13 seminars attracting 345 attendees.

Attendance numbers include seminars delivered to the general public as well as migrant groups and organisations such as Junction Australia, SAHA (Affordable Homes Assist & Real Estate Agents), Murraylands and Naracoorte Migrant Resource Centres, Lutheran Care and Max Solutions.

Partnerships

COVID-19 impacted some partnerships from an events perspective. We are pleased to have been able to partner with the following organisations in 2020-21:

- Adelaide 36ers Basketball
- Bhutanese Community of SA
- South Australian Bangladeshi Community Association
- TAFE SA Costume and Design Awards
- TAFE SA Fashion Graduate Parade
- Zoos SA.

Donations

In 2020-21, HomeStart helped the following organisations by donating to their causes:

- Australian Lions Childhood Cancer Research Foundation and Australian Lions Childhood Mobility Foundation
- Catherine House
- Hutt Street Centre
- Jodie Lee Foundation
- Mercer SuperCycle (The Hospital Research Foundation)
- Neil Sachse Centre for Spinal Cord Research (SAHMRI)
- Ronald McDonald House
- St Vincent De Paul.

Learning & Growth

Our people

Our people are central to HomeStart's success

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

To achieve this we:

- developed the skills and experience necessary to deliver the organisation's innovation and change agenda
- learned and adopted new work practices
- continued to build a culture where our people are personally fulfilled, work effectively together, and do great work
- put the right resources into developing and enhancing the knowledge, skills and behaviours needed to be successful
- modified our Workplace Flexibility Policy to create greater work-life balance for our employees.

This ensures our people can adapt to fast-moving technology and consumer landscapes with the capability to continue innovating and responding quickly to change.

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

In addition to leadership diagnostic tools, we conducted two employee engagement surveys. Both surveys measured our employee engagement score at 77% with the latest survey participation rate at over 80%. Our most recent employee engagement survey told us that nearly a third of our workforce responded as highly engaged with the top three questions being "my work is very important to me", "I am confident about my ability to do my job" and "I am prepared to 'go the extra mile' in my job". Our Culture Council continues to engage wherever possible to support employee engagement and culture survey outcomes to ensure we remain to be a great place to work.

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

Learning and growth statistics

Employment opportunity programs

During the reporting period:

- 51% of our workforce were women
- 50% of our executives were women
- 10% of our workforce employees worked part-time
- 1% per cent of our workforce were employed as part of the Disability program
- 30% per cent of our workforce were born overseas
- 1% of our workforce participated in the Graduate program

Documented review of individual performance management

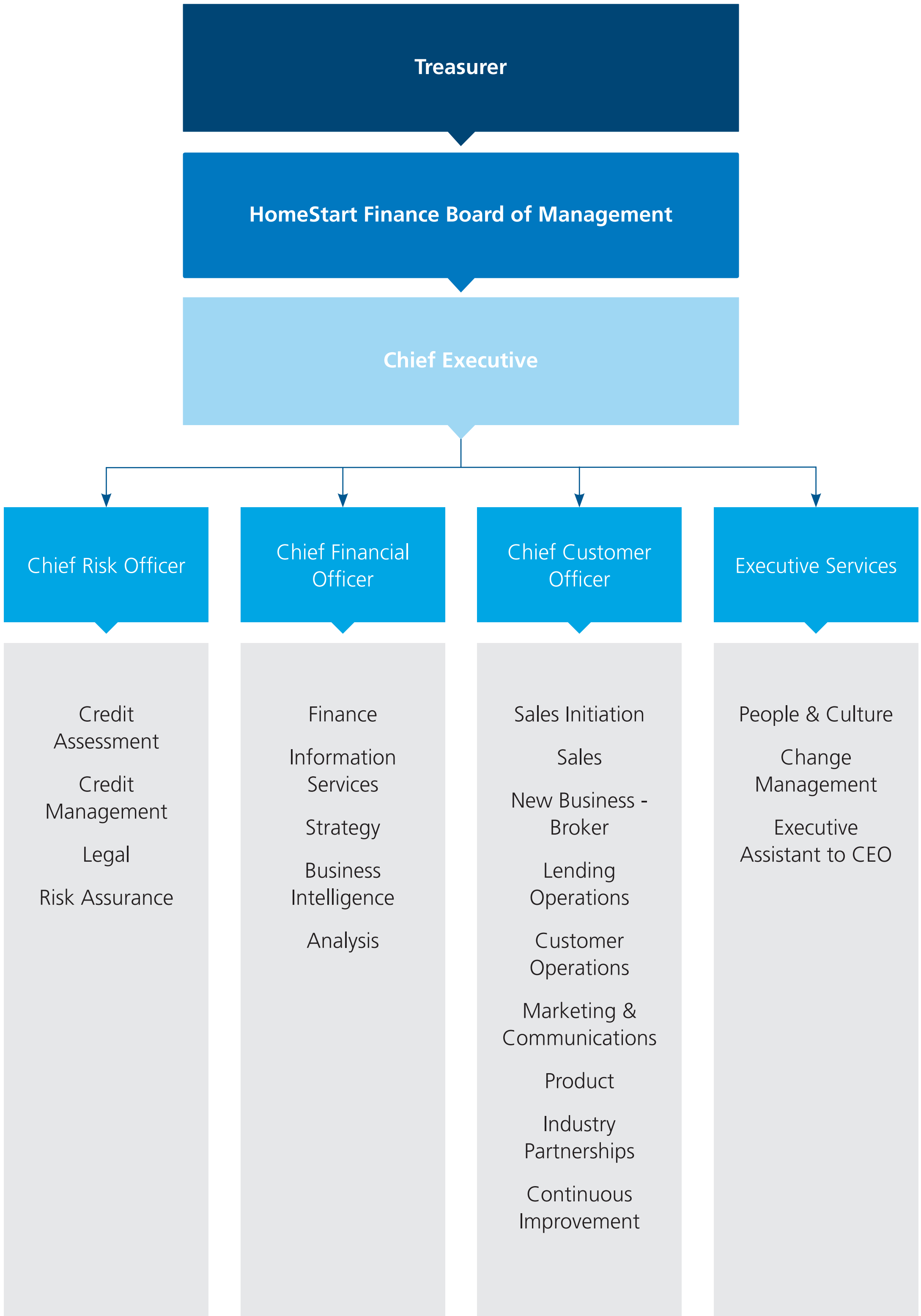
Performance management and development system	Performance
Performance plans are facilitated and documented through myPlan and myDevelopment learning management system. The formal performance discussion process is biannual, and focusses on learning and growth	As at 30 June 2021, 100% of employees had a performance development discussion in the past six months

Leadership and management training expenditure

Training and development	Total cost $'000	% of total salary expenditure
Total training and development expenditure	228	1.8

Further data relating to human resources information, for this and previous years, is available from the Office of the Commissioner for Public Sector Employment website: publicsector.sa.gov.au/about/Our-Work/Reporting/Workforce-Information/workforce-information-data-dashboard.

Organisational chart



Internal Processes

Corporate governance

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

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

HomeStart's approach to corporate governance is guided by legislation, State Government guidelines issued by the Department of Premier and Cabinet, Treasurer's Instructions issued by the Department of Treasury and Finance, 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 2020-21 are identified on pages 23 and 24.

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

The Board is responsible to the Treasurer for overseeing HomeStart's business operations, with a particular focus on corporate accountability, strategic planning, monitoring, policy development and protecting the State Government's financial and other interests in the organisation.

A Department of Treasury and Finance appointed observer is invited to attend each Board meeting.

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

Audit Committee

This committee is chaired by Sue Edwards and includes two other Board member representatives. Management personnel and representatives of the Auditor-General and internal auditors also attend meetings. The Audit Committee's primary responsibilities are:

- monitoring risk management processes and the status of operational risks
- reviewing the financial reporting processes and outputs
- monitoring and reviewing compliance with relevant laws and regulations
- monitoring the internal and external audit functions
- monitoring internal control processes
- approving changes to the risk management framework
- to operate in a commercial manner and manage risk prudently.

Asset and Liability Committee (ALCO)

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

- maintains sound, prudent financial asset, liability and capital management practices for 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 member representatives.

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

Business planning, monitoring and accountability

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

The Board employs balanced scorecard methodologies on a monthly basis to monitor all key areas of HomeStart's business operations. The individual subcommittees of the Board also provide feedback to the Board on activities undertaken in discharging the duties under their respective charters.

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

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

Board member remuneration

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

Board member benefits

During or since the 2020-21 financial year, no Board member has received or become entitled to receive a personal benefit (other than a remuneration benefit included at Note 8 to the financial statements) because of a contract made with HomeStart by:

- the Board member
- any organisation of which the Board member is a member
- any entity in which the Board member has a substantial financial interest
- an associate of the Board member.

Executive appointment and remuneration

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

Risk management

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

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

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

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

Strategic risk

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

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

Credit risk

Credit risk is inherent in HomeStart's core function of lending. Lending policies are founded on sound credit risk management and behavioural intelligence, which is incorporated into each stage of a customer's loan application and ongoing loan management. Analysis is underpinned by credit risk systems that have been developed using a combination of theory and experience, drawn from the behaviour of our customer base.

The Credit 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 occurs to ALCO, Audit Committee and Board.

Market risk

A comprehensive set of policies govern HomeStart's funding and interest rate risk management activities. These policies are monitored by ALCO at its monthly meetings and 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.

Compliance, internal control and assurance

The Board is responsible for overseeing HomeStart's compliance performance. The Audit Committee, in its key role of assisting the Board to fulfil its corporate governance objectives, is responsible for monitoring and reviewing HomeStart's compliance performance.

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

HomeStart's Board is responsible for ensuring robust and effective internal controls exist to minimise the risks inherent in our business. Internal controls are regularly reviewed through the risk management framework to ensure their adequacy and to identify any areas of improvement.

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

While internal fraud is a risk that HomeStart is exposed to in various areas of the business, no inappropriate activity has been identified. Strategies to prevent fraud are in place at all levels of our operations including:

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

Internal and external audit

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

Deloitte conducted the operational internal audit function for 2020-21 which was based on a three-year rolling audit plan.

Board members

Jim Kouts
Chair

Mr Kouts has significant commercial, strategic and governance experience across a range of national and State-based private and government sector organisations. He is a former senior national executive having worked for two global energy groups for close to 20 years.

He also is Chair of the Adelaide Convention Bureau; a Non-Executive Director of the Adelaide Venue Management Corporation; and has been a long-term Strategic Adviser to Adelaide Airport Limited and Flinders Port Holdings.

He was formerly a Non-Executive Director of the Electricity Supply Industry Planning Council; Deputy Chair of the Botanic Gardens of Adelaide and a Non-Executive Director of the Beston Global Food Company.

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

Chris Ward
Deputy Chair

Mr Ward is a professional Non-Executive Director having had broad executive experience across multiple business disciplines for more than 30 years, primarily in banking and finance.

Along with being an Advisory Board Chair to two private companies, Mr Ward shares his significant business experience with small-to-medium-sized companies.

Mr Ward is formerly a Non-Executive Director of the South Australian Film Corporation (SAFC); Chair of the Risk and Audit Committee and a member of the Remuneration Committee at SAFC; former Non-Executive Director Australian Dance Theatre; and for several years an Executive Partner at UniSA.

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

Sue Edwards

Ms Edwards is a chartered accountant and currently 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. She also has experience in the management of financial institutions as a former treasury manager with Adelaide Bank. She is a Board member of the SA Museum and Chair of its Investment Committee.

Ms Edwards was appointed to the Board in December 2010.

Darryl Royans

Mr Royans has extensive finance and management experience gained through a 40-year career with the Commonwealth Bank of Australia. Prior to retirement from the bank he held the position of State Manager for SA & NT Commercial Banking Risk, with accountability for credit decisioning across Retail Banking, Trade Finance, Commercial Lending and Foreign Exchange.

Mr Royans consults to a private financier, Keystone Capital Ltd by virtue of an ASIC Credit license; a Justice of the Peace; and the former Chair of the Board of Alwyndor Aged Care, a 140-bed facility at Hove SA.

Mr Royans was appointed to the Board in December 2013.

Shanti Berggren

Ms Berggren is the Deputy General Counsel for Optus Enterprise with 27 years' experience practicing law, primarily in technology and telecommunications.

She has worked in Los Angeles, Singapore and Sydney before returning to Adelaide in 2005. She is the Chair of the Board of Directors of Wilderness School. She was recently appointed to the Board of the Adelaide Football Club.

Ms Berggren was appointed to the Board in March 2017.

Cathie King

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

Ms King was appointed to the Board in July 2017 and concluded her term in July 2020.

Andrew Seaton

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

Mr Seaton is presently the Chief Executive Officer of Australian Naval Infrastructure and a non-executive Director of Cavpower Pty Ltd, Strike Energy Ltd and Hydrocarbon Dynamics Ltd. Mr Seaton's previous roles include Chief Financial Officer of Santos Limited; Vice President Investment Banking with Merrill Lynch; and Client Director with NAB. In his early career, he worked as an engineer and project manager in the oil and gas and petrochemicals industries.

Mr Seaton has an honours degree in Chemical Engineering, a Graduate Diploma in Business Administration and is a Graduate of the Australian Institute of Company Directors.

Mr Seaton was appointed to the Board in October 2019.

Paulette Kolarz

Ms Kolarz is the Managing Director of BespokeHR and is widely recognised as a specialist in Human Resource Management and Leadership Development.

With more than 20 years of working in HR/People and Culture positions, she has significant experience in providing end-to-end people solutions as well as operational management, heading up an $80 million flagship retail store.

Ms Kolarz holds an Associate Diploma in HR/IR; a Degree in Management (Employee Relations); and Honors in Management (Human Resources) from the University of South Australia.

In 2008, Ms Kolarz 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.

Ms Kolarz was appointed to the HomeStart Board in February 2021.

Member	Board attendance	
	Eligible to attend	Meetings attended
J Kouts (Chair)	11	11
C Ward (Deputy)	11	10
S Edwards	11	10
D Royans	11	11
S Berggren	11	11
C King	1	1
A Seaton	11	10
P Kolarz	5	5

Member	Asset & Liability Committee attendance	
	Eligible to attend	Meetings attended
J Kouts (Chair)	-	-
C Ward (Deputy)	11	10
S Edwards	-	-
D Royans	11	11
S Berggren	11	11
C King	-	-
A Seaton	-	-
P Kolarz	-	-

Member	Audit Committee attendance	
	Eligible to attend	Meetings attended
J Kouts (Chair)	1	1
C Ward (Deputy)	4	4
S Edwards	7	6
D Royans	-	-
S Berggren	-	-
C King	-	-
A Seaton	7	7
P Kolarz	3	3

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 policies and practices are updated in accordance with changes to legislation, or as a result of regular review.

Due to the pandemic the Premier enacted the SA Public Sector Mobilisation Policy in early 2020, to facilitate the mobilisation of the public sector employees for deployment in the event of a catastrophic disaster or major emergency in South Australia. As a result, a number of HomeStart employees were trained to support activities associated with COVID-19 such as contact tracing and/or training in the event of a major emergency, e.g. call centre training for floods or bushfires.

Activities to support a safe work environment include:

- onsite trained Mental Health First Aid Officers and First Aid Officers
- regular emergency evacuation drills
- annual influenza vaccination program
- provision of online training; mandatory and optional opportunities
- provision of the Employee Assistance Program
- conducting worksite inspections across all locations
- conducting ergonomic assessments, in the workplace and for work from home employees
- supported the mobilisation of employees under the new Public Sector Mobilisation Policy to fill shortages in response to the pandemic
- COVID-19 hand hygiene online training delivered.

WHS statistics

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

Table 2: Agency gross workers compensation expenditure for 2020-21 compared with 2019-20

Year	Expense $'000
2019-20	40
2020-21	0

Freedom of Information Act 1991 – Information Statement

HomeStart Finance is a statutory corporation, established by regulation under the Urban Renewal Act 1995 to facilitate home ownership opportunities for South Australians, with a particular focus on low-to-moderate income households. HomeStart operates in a commercial manner to achieve financial and other performance benchmarks that are established and agreed with the State Government.

Policy documents

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

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

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

Access to personal information

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

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

Public Interest Disclosure Act 2018

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

Overseas travel

There was no overseas travel undertaken during 2020-21.

Public complaints

Category of complaint by subject	Number
Complaints received through the Australian Financial Complaints Authority	12
Collections	5
Policy	3
Service	4
Complaints lodged with State Ombudsman	0
Complaints direct to HomeStart	56
Collections	3
Policy	17
Service	35
Other	1
Total complaints	**68**

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**

Financials

Sustainable financial management

There were complex, challenging and dynamic factors in play throughout the year as COVID-19 continued to disrupt economic and community activity. HomeStart finished the period in a position of strength, with excellent underlying profitability, sound credit and a robust capital position. These factors, combined with the organisational focus of delivering social obligations to our customers within a commercial framework and prudent risk management, continue to ensure long-term value for our stakeholders.

In 2020-21, HomeStart achieved the financial targets set by the State Government, including an operating profit before tax of $49.6 million and a return on equity of 31% against a target of 9%.

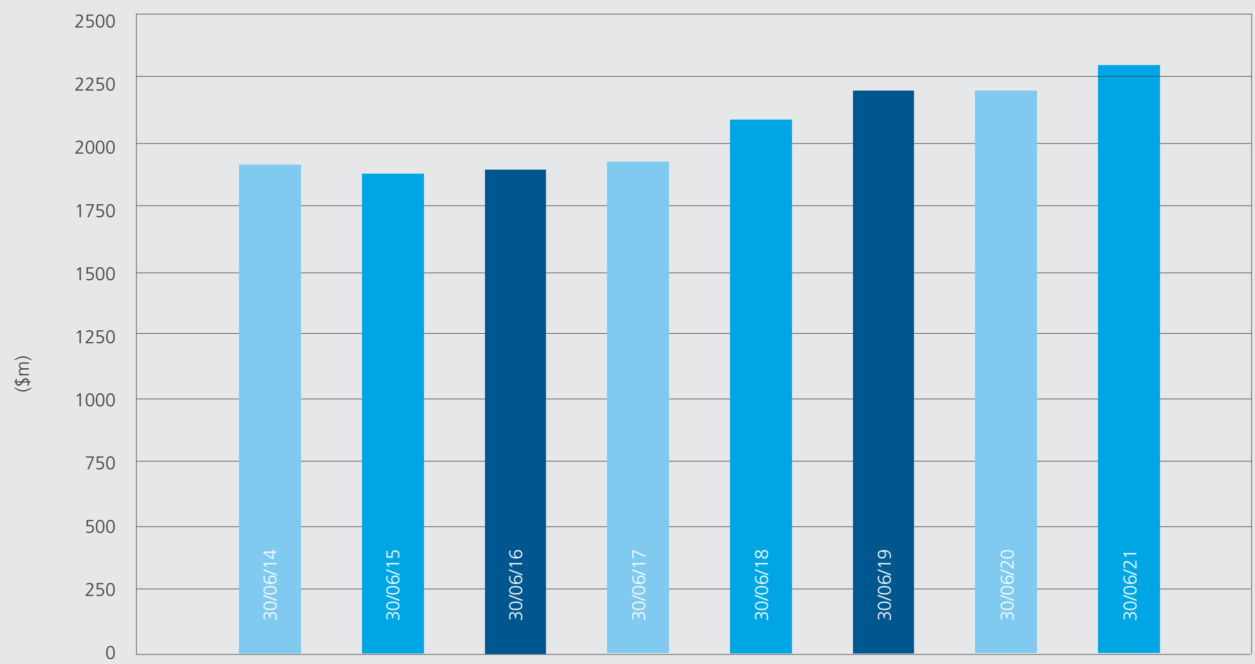
HomeStart continued to provide substantial payments to the Government, amounting to $61.3 million for the year and totalling $785.7 million since HomeStart's inception in 1989.

HomeStart received a Community Service Obligation (CSO) reimbursement of $7.6 million in 2020-21 ($7.3 million, 2019-20) in recognition of the cost of providing our non-commercial activities. HomeStart's debt funding from SAFA was $2.1 billion against a borrowing limit of $2.46 billion. Reflecting growth in risk-weighted assets, capital adequacy fell during the year, ending at 11.4% (12.4%, 2019-20).

Asset and liability management

The gross loan portfolio grew slightly during 2020-21 at $2.3 billion ($2.2 billion, 2019-20). The Federal Government's HomeBuilder Grant contributed a significant increase in housing construction lending, which achieved record levels. 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 the SAFA. A global approach to treasury risk management has been adopted, whereby risks are amalgamated from all activities and managed on a consolidated basis, taking advantage of offsetting risks.

A comprehensive set of policies, approved by ALCO, outlines all treasury policies, processes and procedures, and the limitations within which our treasury functions must operate. These policies also govern the structure and approach to the management of our debt portfolio.

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

Provisioning

HomeStart has recognised specific and collective provisions of $20.6 million ($23.4 million in 2019-20) against its loan portfolio.

Credit performance across the portfolio was stronger than first expected during the year. HomeStart worked closely with all customers who required payment assistance, including those directly affected by the pandemic. During the year to 30 June 2021, 783 loans ($206 million) required assistance due to the pandemic. By the end of the financial year, 646 loans in this group had returned to normal payment arrangements, and the remainder were 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 view that the factors driving credit quality during 2020-21 are unlikely to persist in coming years.

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

Financial indicators	2013	2014	2015	2016	2017	2018	2019	2020	2021
Operating profit ($m)	16.4	17.0	15.6	17.0	20.3	18.9	23.3	31.2	49.6
Return on Equity	10.26%	10.21%	9.09%	10.29%	12.57%	11.52%	14.49%	19.66%	31.00%
Net interest margin	1.16%	1.09%	1.03%	1.18%	1.32%	1.20%	1.31%	1.98%	2.29%
Balance sheet strength									
Capital ($m)	164.2	169.3	173.2	157.3	165.4	162.2	159.2	158.4	161.6
Provisions ($m)	20.1	20.5	18.0	17.3	18.2	17.5	18.6	23.4	20.6
Gross loan portfolio ($m)	1962.2	1907.6	1840.2	1867.7	1939.7	2103.1	2245.7	2227.5	2280.5
Net loan losses ($m)	0.84	0.90	0.40	0.81	0.17	0.07	0.02	0.08	0.06

Financial contributions to the State Government

$785.7 million paid to the State Government since inception.

Payment Type ($m)	1995-2014[1]	2015	2016	2017	2018	2019	2020	2021	TOTAL
Guarantee fee	213.7	27.5	26.5	28.0	28.6	29.7	27.5	22.9	404.4
SAFA[2] admin fee	13.2	1.0	1.0	1.0	1.1	1.2	1.2	1.2	20.9
Tax Equivalent	62.2	5.1	4.9	5.2	6.2	6.0	9.0	11.0	109.6
Dividends	79.8	7.1	7.1	7.1	9.1	14.8	22.3	26.2	173.5
Interim (special) Dividend	47.3	0.0	20.0	0.0	10.0	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**	**785.7**

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

Certification of the **Financial Statements**

For the year ended 30 June 2021

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
21 September 2021

Chris Ward
Deputy Chair
21 September 2021

John Oliver
Chief Executive Officer
21 September 2021

Andrew Mills
Chief Financial Officer
21 September 2021

Statement of Comprehensive Income

For the year ended 30 June 2021

	Note	2021 $'000	2020 $'000
Interest income	4	93,234	104,630
Interest expense	4	(12,917)	(25,820)
Net interest income	4	**80,317**	**78,810**
Other income	5	16,298	11,256
Broker fees		(3,310)	(3,187)
Employee benefits expenses	6	(13,430)	(12,733)
Bad and impaired loans income/(expense)	10	1,952	(6,595)
Depreciation and amortisation expense	11	(2,596)	(2,202)
Other expenses	12	(6,686)	(6,969)
Profit before income tax equivalents and government guarantee fee expenses		**72,545**	**58,380**
Government guarantee fee	9	(22,937)	(27,159)
Profit before income tax equivalents		**49,608**	**31,221**
Income tax equivalents expense	2.2	(14,882)	(9,366)
Profit after income tax equivalents		**34,726**	**21,855**
Other Comprehensive Income			
Items that will be reclassified subsequently to net result when specific conditions are met			
Change in fair value of derivatives		3,180	(247)
Total other comprehensive income		**3,180**	**(247)**
Total comprehensive result		**37,906**	**21,608**

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

Statement of Financial Position

As at 30 June 2021

	Notes	2021 $'000	2020 $'000
Assets			
Cash and cash equivalents	30.1	5,565	4,235
Financial investments	14	1,057	855
Loans and advances	15	2,249,595	2,187,657
Other financial assets	16	271	317
Intangible assets	17	6,262	5,044
Property, plant and equipment	18	8,028	8,738
Other assets	19	581	392
Total assets		**2,271,359**	**2,207,238**
Liabilities			
Payables	21	3,355	2,636
Derivative financial instruments	31.2.2	1,269	4,449
Short-term borrowings	22	100,456	651,151
Employee benefits	23	2,153	2,437
Income tax equivalents payable	24.1	8,171	4,265
Provision for dividend	24.2	9,726	1,205
Long-term borrowings	22	1,978,862	1,379,480
Other liabilities	25.1	5,762	3,190
Total liabilities		**2,109,754**	**2,048,813**
Net assets		**161,605**	**158,425**
Equity			
Reserves	26	(1,269)	6,267
Retained earnings		162,874	152,158
Total equity		**161,605**	**158,425**

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

Statement of Changes in Equity

For the year ended 30 June 2021

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

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

Statement of Cash Flows

For the year ended 30 June 2021

Cash flows from operating activities	Notes	$'000 2021	$'000 2020
Cash inflows			
Interest received			
Interest received on cash		-	12
Interest received on loans and advances		88,733	100,018
Fees and commissions received		1,892	1,971
Bad debts recovered		162	127
Receipts from SA Government			
EquityStart grant received		-	130
Community Service Obligation subsidy received		7,553	7,256
Other receipts		1,203	682
Cash generated from operating activities		**99,543**	**110,196**
Cash outflows			
Employee benefit payments		(13,711)	(12,535)
Payments for supplies and services		(3,665)	(6,446)
Payments to brokers		(4,363)	(3,877)
Borrowing costs paid		(12,982)	(26,808)
Government guarantee fee paid		(23,044)	(27,537)
Tax equivalent paid		(10,976)	(8,959)
Cash used in operating activities		**(68,741)**	**(86,162)**
Net cash (used in)/provided by operating activities	30.2	**30,802**	**24,034**
Cash flows from investing activities			
Cash inflows			
Shared appreciation components of Breakthrough Loan repaid	32.4	6,201	5,652
Shared appreciation components of Shared Equity Option Loan repaid	32.4	430	422
Proceeds from investments		-	107
Customer loans repaid		466,870	424,889
Cash generated from investing activities		**473,501**	**431,070**
Cash outflows			
Purchase of property, plant and office and computer equipment		(482)	(419)
Purchase of software		(2,221)	(1,907)
Purchase of investments designated at fair value through profit or loss		(202)	-
Shared appreciation component of Shared Equity Option Loan settled	32.4	(2,955)	(2,081)
Customer loans settled		(519,554)	(408,717)
Cash used in investing activities		**(525,414)**	**(413,124)**
Net cash (used in)/provided by investing activities		**(51,913)**	**17,946**
Cash flows from financing activities			
Cash inflows			
Proceeds from borrowings		600,000	100,000
Cash generated from financing activities		**600,000**	**100,000**
Cash outflows			
Dividends paid to SA Government		(26,205)	(22,344)
Repayment of leases		(658)	(608)
Repayment of borrowings		(550,696)	(117,938)
Cash used in financing activities		**(577,559)**	**(140,890)**
Net cash (used in)/provided by financing activities	30.3	**22,441**	**(40,890)**
Net (decrease)/increase in cash and cash equivalents		**1,330**	**1,090**
Cash and cash equivalents at the beginning of the period		4,235	3,145
Cash and cash equivalents at the end of the period	30.1	**5,565**	**4,235**

The accompanying notes form part of these financial statements.

Notes to an forming part of the Financial Statements
For the year ended 30 June 2021

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 2021 was $2.047 billion ($1.990 billion, 2019-20).

In addition, HomeStart offers a range of shared equity products and the outstanding value as at 30 June 2021 was $50.3 million ($49.1 million, 2019-20).

HomeStart also offers a Seniors Equity (reverse mortgage) product and the outstanding value as at 30 June 2021 was $77.0 million ($78.8 million, 2019-20).

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

As at 30 June 2021, the interest rate applying to Advantage Loans was 2.00% (2.43%, 2019-20). The outstanding value of Advantage Loans at 30 June 2021 was $77.2 million ($78.7 million, 2019-20).

For the year ended 30 June 2021, HomeStart received a Community Service Obligation (CSO) subsidy payment of $4.5 million ($4.0 million, 2019-20) 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 direct impact on the operations of HomeStart at various times during the year. The key impacts in 2020-21 were:

- 783 loans had requested some form of negotiated payment arrangement due to the effect of the virus. Of this group, by 30 June 2021, 648 had completed their arrangements and continued under normal loan management processes. A further 135 loans had discharged subsequent to entering arrangements.
- 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 the full financial year. This has the effect of providing a small amount of cash flow relief to home loan customers and has minimal cash flow, portfolio, or financial impact on HomeStart.
- 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 followings 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 well secured.

2.3.4 *Loan origination fees received or receivable*

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

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

2.3.5 ***Government grants***

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

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

2.3.6 ***Investment income***

For financial assets measured at fair value through profit or loss (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 proceeds with carrying amount. The gains or losses arising from disposal of non-financial assets are recognised on a net basis as income or an expense.

2.3.8 ***Other income***

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

2.4 **Expenses**

2.4.1 ***Government guarantee fee***

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

2.4.2 ***Loan origination fees paid or payable***

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

2.4.3 ***Employee benefits expenses***

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

2.4.4 ***Leases***

At inception of a contract, HomeStart assesses where a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, HomeStart uses the definition of a lease in AASB 16.

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.

HomeStart determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased. Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments; 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 ROU assets. This amount has been calculated as an estimate of future costs.

2.5 Assets

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

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

2.5.1 *Cash and cash equivalents*

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

2.5.2 *Financial assets*

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

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

Initial measurement and classification

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

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

Subsequent measurement

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

- financial assets at amortised cost (debt instruments); 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 instruments is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial instrument have occurred.

Evidence that a financial 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 55% probability of occurring (55%, 2019-20), and two less likely scenarios, one upside assigned a 10% probability of occurring (5%, 2019-20) and one downside assigned a 35% probability of occurring (40%, 2019-20). The base case is aligned with information used by the HomeStart for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities and selected private-sector and academic forecasters.

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

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

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial instruments have been developed based on analysing historical data over 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 recorded at cost or at the value of any liabilities assumed, plus any incidental cost involved with the acquisition. Property, plant and equipment are subsequently measured using the revaluation model per note 2.5.4.3.

Where assets are acquired at no value, or minimal value, they are recorded at their fair value in the Statement of Financial Position. If, however, the assets are acquired at no or nominal value as part of a restructuring of administrative arrangements, then the assets are recognised at book value, i.e. the amount recorded by the transferor immediately prior to transfer.

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

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

2.5.4.2 *Intangible assets*

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

The acquisition of, or internal development of software, is capitalised only when the expenditure meets the definition (identifiability, control and existence of future economic benefits) and recognition criteria of an intangible asset outlined in AASB 138 *Intangible Assets*, and when the amount of expenditure is greater than or equal to $1 000.

Software assets that are not integral to the operation of hardware are recognised as intangible assets with a finite life. Capitalised software is amortised over the useful life of the asset, which is generally between 4 and 10 years.

Costs in relation to website development, building or enhancing a website to the extent they represent probable future economic benefits controlled by HomeStart that can be reliably measured, are capitalised as an asset and amortised over the period of the expected benefits. Maintenance costs are expensed.

2.5.4.3 *Impairment and revaluation*

All non-current tangible assets are subsequently valued at fair value. Where the cost at the time of acquisition is less than $1.5 million ($1.5 million, 2019-20) and 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).

2.6.3 *Employee benefits*

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

Long-term service leave

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

Salaries and wages, annual leave and sick leave

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

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees is estimated to be less than the annual entitlement for sick leave.

2.7 Other provisions

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

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

2.8 Fair value measurement

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

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

- Level 1 – quoted prices (un-adjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); 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 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 2021 but do not have a material impact on the financial statements of HomeStart. HomeStart has assessed the impact of new and changed Australian Accounting Board Standards and Interpretations effective for annual periods beginning after 30 June 2021. 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.

	2021	2020
Interest income	**$'000**	**$'000**
Loans and advances	87,617	97,935
Subsidised loans effective interest income	3,759	4,046
Subsidised loans fair value expense	(842)	(333)
Loan origination income amortisation	2,700	2,970
Deposits with banks	-	12
Total interest income	**93,234**	**104,630**
Interest expense		
Borrowings from SAFA	(12,695)	(25,587)
Lease liability	(222)	(233)
Total interest expense	**(12,917)**	**(25,820)**
Net interest income	**80,317**	**78,810**

NOTE 5 Other income

See accounting policy in note 2.3.5-8.

	2021	2020
	$'000	**$'000**
Fees and charges	2,538	2,812
Bad debts recovered	162	127
Unrealised gain in fair value of loans at FVTPL*	4,883	450
Realised change in fair value of loans at FVTPL	1,087	495
EquityStart grant	-	34
Community Service Obligation (CSO) subsidy	7,553	7,256
Other	75	82
Total other income	**16,298**	**11,256**

*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.

	2021	2020
	$'000	**$'000**
Salaries and wages	11,298	10,750
Long service leave (LSL)	32	48
Annual leave	206	243
Employment on-costs* – superannuation	1,054	1,032
Employment on-costs – other	591	567
Workers compensation	-	(171)
Board and committee fees	249	264
Total employee benefits expenses	**13,430**	**12,733**

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

NOTE 7 Employee remuneration

Remuneration of employees The number of employees whose remuneration received or receivable falls within the following bands:	**2021** **No.**	**2020** **No.**
$154,001 to $174,000	5	6
$174,001 to $194,000	3	2
$194,001 to $214,000	-	1
$214,001 to $234,000	1	2
$234,001 to $254,000	2	2
$254,001 to $274,000	1	-
$274,001 to $294,000	-	-
$294,001 to $314,000	-	-
$314,001 to $334,000	-	-
$334,001 to $354,000	-	-
$354,001 to $374,000	-	-
$374,001 to $394,000	-	-
$394,001 to $414,000	-	-
$414,001 to $434,000	-	1
$434,000+	1	-
Total	**13**	**14**

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 $2.78 million ($2.88 million, 2019-20).

Number of employees
HomeStart employed 123 people at the end of the reporting period (114, 2019-20).

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 2021 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 (from 1 February 2021)
Ms Catherine King (until 31 July 2020)

(b) Other Key Management Personnel

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

Mr John Oliver - Chief Executive Officer
Mr Andrew Mills - Chief Financial Officer
Mr Peter Byrnes - Head of Risk & Lending (until 14 May 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 2021 and 2020 included in employee benefits expenses (see note 6) is as follows:

	2021 $'000	2020 $'000
Salaries and other short-term employee benefits	1,219	1,151
Long-term employee benefits (long service leave)	3	(3)
Long-term employee benefits (amounts paid to superannuation plans)	111	107
Total	**1,333**	**1,255**

(d) Board and committee remuneration

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

	2021 No.	2020 No.
$0 - $19,999	2	1
$20,000 - $39,999	-	4
$40,000 - $59,999	6	3
$60,000 - $79,999	-	-
$80,000 - $99,999	-	-
Total number of members	**8**	**8**

The total remuneration received and receivable by members was $0.28 million ($0.29 million, 2019-20) 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.

	2021 $'000	2020 $'000
Government guarantee fee paid or payable	22,937	27,159
Total government guarantee fee	**22,937**	**27,159**

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) decreasing to 0.85% pa for the 2020-21 financial year (0.99%, 2019-20). Existing debt will continue to attract the legacy rates approved in previous financial years ranging from 0.85% to 1.56% p.a. (0.99% to 1.60% p.a., 2019-20).

NOTE 10 Bad and impaired loans expense/(income)

See accounting policy in note 2.5.3.1.

	2021 $'000	2020 $'000
Bad and impaired loans expense	61	81
Increase/(decrease) in provision for impairment	(2,013)	6,514
Total bad and impaired loans expense/(income)	**(1,952)**	**6,595**

NOTE 11 Depreciation and amortisation expense

See accounting policy in note 2.5.4.4.

	2021 $'000	2020 $'000
Other office and computer equipment	344	276
Leasehold improvements	274	276
Right of use buildings	702	685
Right of use motor vehicles	21	19
Intangible assets	1,255	946
Total depreciation and amortisation expense	**2,596**	**2,202**

NOTE 12 Other expenses

	2021 $'000	2020 $'000
External auditor's remuneration	173	183
Insurance	112	135
Office accommodation	186	171
Marketing, product development and advertising	1,720	1,539
Internal audit fees	198	226
Loan administration	163	241
Information technology	1,308	1,327
Consultant fees	49	143
Human resources and staff development	505	550
Other	2,272	2,454
Total other expenses	**6,686**	**6,969**

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:	2021 No.	2021 $'000	2020 No.	2020 $'000
Below $10 000	2	7	-	-
$10 000 or above	2	42	5	143
Total	**4**	**49**	**5**	**143**

NOTE 13 Auditor's remuneration

	2021 $'000	2020 $'000
Audit fees paid/payable to the Auditor-General's Department relating to work performed under the *Public Finance and Audit Act 1987*	173	183
Total	**173**	**183**

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.

	2021 $'000	2020 $'000
SAFA Cash Management Fund (Wyatt)	1,057	855
Total financial investments	**1,057**	**855**

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	2021 $'000	2020 $'000
Loans and advances at amortised cost	2,122,314	2,059,783
Loans and advances at FVTPL	127,281	127,874
Total loans and advances	**2,249,595**	**2,187,657**

15.1 Loans and advances at amortised cost	2021 $'000	2020 $'000
Primary loans	2,046,545	1,989,851
Subsidised loans	110,898	111,676
Gross loans and advances	**2,157,443**	**2,101,527**
Fair value adjustment	(7,038)	(8,850)
Deferred loan fee income	(10,843)	(11,568)
Deferred loan fee expense	5,096	4,043
Unearned income on impaired loans	(1,676)	(1,982)
Provision for expected credit losses specific	(5,329)	(7,839)
Provision for expected credit losses collective	(15,339)	(15,548)
Total loans and advances at amortised cost	**2,122,314**	**2,059,783**

See accounting policy in note 2.5.3.1.

	2021 $'000	2020 $'000
Stage 3 Specific provision - Lifetime Expected Credit Losses (ECL)	**(5,329)**	**(7,839)**
Stage 3 Collective provision - Lifetime ECL	(614)	(770)
Stage 2 Collective provision - Lifetime ECL	(8,289)	(9,490)
Stage 1 Collective provision - 12-months ECL	(6,436)	(5,288)
Total Collective provision for impaired loans	**(15,339)**	**(15,548)**
Total provision for credit impairment	**(20,668)**	**(23,387)**

	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
Balance at beginning of year	5,288	9,490	770	7,839	23,387
Changes due to financial assets recognised in the opening balance that have:	-	-	-	-	-
-Transferred to 12-months ECL - collective provision	4,979	(2,427)	(55)	(2,497)	-
-Transferred to Lifetime ECL not credit impaired - collective provision	(201)	1,567	(207)	(1,159)	-
-Transferred to Lifetime ECL credit impaired - collective provision	-	(61)	61	-	-
-Transferred to Lifetime ECL credit impaired - specific provision	(47)	(255)	(45)	347	-
Change in facility blanace or coverage ratio	(4,450)	458	310	2,567	(1,115)
Write-offs from specific provisions	-	(9)	(54)	(805)	(868)
New and increased provisions (net of releases)	867	(474)	(166)	(963)	(736)
Balance at end of year	**6,436**	**8,289**	**614**	**5,329**	**20,668**

Collective Provision Sensitivity Analysis

The longer term impacts of the COVID-19 pandemic, and associated government policy settings, has introduced elements of uncertainty in relation to measurement of HomeStart's collective provision. 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. The economic recovery from the pandemic has exceeded original forecasts made last year. It is therefore Management's opinion that there is now a lower chance of the 'Bad' scenario occurring and an increased chance of the 'Good' scenario, rendering the possible economic pathways to be more similar to the 2018-19 settings than what was in place at the end of the 2020 financial year.

- Base case – 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-
- Good scenario – increased collateral value and decreased unemployment, resulting in the decreased LGD and decreased roll-rates.

	2021			2020		
	Base	Good	Bad	Base	Good	Bad
Scenario weights	55%	10%	35%	55%	5%	40%
Loss Given Default (weighted average)	12%	12%	15%	11%	11%	13%
Other key variables						
- Roll rate increase/decrease	-	(10%)	20%	-	(10%)	50%

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

	2021		2020	
	Total collective provision	Impact $'000	Total collective provision	Impact $'000
100% Base	14,025	(1,368)	13,803	(1,745)
100% Good	13,755	(1,637)	13,568	(1,981)
100% Bad	18,011	2,618	18,196	2,647

15.2 Loans and advances at fair value through profit or loss	2021 $'000	2020 $'000
Breakthrough Loan (shared appreciation component)	41,884	43,675
Shared Equity Option Loan (shared appreciation component)	8,412	5,414
Seniors Equity Loan	76,985	78,785
Total loans and advances at fair value through profit or loss	**127,281**	**127,874**

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

	2021 $'000	2020 $'000
Accrued interest on housing loans and advances	236	247
GST recoverable	35	33
Other	-	37
Total other financial assets	**271**	**317**

NOTE 17 Intangible assets

See accounting policy in note 2.5.4.2.

	2021 $'000	2020 $'000
Software at cost	13,356	10,901
Accumulated amortisation	(7,094)	(5,857)
Total intangible assets	**6,262**	**5,044**
Carrying amount at 1 July 2020	**5,044**	**4,373**
Additions	2,473	1,617
Amortisation	(1,255)	(946)
Carrying amount at 30 June 2021	**6,262**	**5,044**

NOTE 18 Property, plant and equipment

Leasehold improvements	2021 $'000	2020 $'000
Leasehold improvements at cost (deemed fair value)	2,750	2,743
Accumulated amortisation	(1,624)	(1,350)
Total leasehold improvements	**1,126**	**1,393**
Other office and computer equipment		
Other office and computer equipment at cost (deemed fair value)	3,331	3,019
Accumulated depreciation	(2,362)	(2,180)
Total other office and computer equipment	**969**	**839**
Right of use buildings		
Right of use buildings (at cost)	9,959	9,831
Accumulated depreciation	(4,049)	(3,348)
Total right of use buildings	**5,910**	**6,483**
Right of use motor vehicles		
Right of use motor vehicles (at cost)	85	64
Accumulated depreciation	(62)	(41)
Total right of use motor vehicles	**23**	**23**
Total property, plant and equipment	**8,028**	**8,738**

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 2019	**1,912**	**696**	**-**	**-**	**2,608**
Additions – at cost (deemed fair value)	-	419	157	20	596
ROU Assets recognised at transition to AASB16	-	-	6,768	21	6,789
Reclassification	(243)	-	243	-	-
Disposals – at cost (deemed fair value)	-	(13)	-	-	(13)
Disposals – accumulated depreciation	-	13	-	-	13
Depreciation and amortisation	(276)	(276)	(685)	(18)	(1,257)
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**

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, 2019-20) and had an estimated useful life less than three years, has not been revalued in accordance with Accounting Policy Statement 116.D. The carrying value of these items are deemed to 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

	2021 $'000	2020 $'000
Prepayments	581	392
Total other assets	**581**	**392**

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, 2019-20) and had an estimated useful life less than three years, are deemed to approximate fair value.

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

Fair value measurements at 30 June 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**

Fair value measurements at 30 June 2020

Recurring Fair Value Measurements	2020 $'000	Level 3 $'000
Leasehold improvements	1,393	1,393
Other office and computer equipment	839	839
Total recurring fair value measurements	**2,232**	**2,232**

HomeStart's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period. During 2021 and 2020, 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 2021 and 2020. The following table is a reconciliation of fair value measurements using significant unobservable input (level 3).

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

Property, plant and equipment	2021 $'000	2020 $'000
Opening balance at the beginning of the period	**2,232**	**2,608**
Acquisitions	483	419
ROU Assets recognised at transition to AASB 16	-	(243)
Disposals	(2)	-
Depreciation	(618)	(552)
Carrying amount at the end of the period	**2,095**	**2,232**

NOTE 21 Payables

	2021 $'000	2020 $'000
Trade payables	1,189	590
Accrued administration expenses	603	382
Employment on-costs*	474	403
Accrued interest payable on borrowings	279	326
Accrued interest payable on derivatives	90	108
Accrued guarantee fee payable	720	827
Total payables	**3,355**	**2,636**

*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 the amounts due to their short-term nature.

NOTE 22 Borrowings and leases

Interest bearing liabilities

Short-term borrowings payable	2021 $'000	2020 $'000
Short-term borrowings	99,797	650,492
Short-term lease liabilities	659	659
Total short-term borrowings	**100,456**	**651,151**
Long-term borrowings payable		
Long-term borrowings	1,972,000	1,372,000
Long-term lease liabilities	6,862	7,480
Total long-term borrowings	**1,978,862**	**1,379,480**
Total interest bearing liabilities	**2,079,318**	**2,030,631**

All HomeStart borrowings are unsecured.

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

Leases - Amounts recognised in profit or loss	2021 $'000	2020 $'000
Expenses relating to short-term leases	-	39
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	-	-

Leases - Amounts recognised in statement of cash flows	2021 $'000	2020 $'000
Total cash outflow for leases	988	879

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:

	2021 $'000	2020 $'000
Within one year	659	669
Later than one year but not later than five years	3,130	2,948
Later than five years	3,732	4,532
Total	**7,521**	**8,149**

Extension options

Some property leases contain extension options exercisable by HomeStart up to one year before the end of the non-cancellable contract period. Where practicable, HomeStart seeks to include extension options in new leases to provide operational flexibility.

HomeStart 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

	2021 $'000	2020 $'000
Accrued salaries	84	281
Annual leave	743	682
Long service leave	1,326	1,474
Total employee benefits	**2,153**	**2,437**

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 2020 (0.75%) to 2021 (1.25%).

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

The net financial effect of the above changes in the current financial year is an increase in the long service leave liability of $156,000 and employee benefits expense of $171,000. 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	2021 $'000	2020 $'000
Income tax equivalent payable	8,171	4,265
Total income tax equivalents payable	**8,171**	**4,265**

24.2 Provision for dividend	2021 $'000	2020 $'000
Dividend payable	9,726	1,205
Total provision for dividend	**9,726**	**1,205**

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 2021, the Treasurer approved payment of a dividend of 100% of after tax profit (100%, 2019-20). Based on the expected profit for the year, this amounted to a total dividend of $31.3 million in respect of the year ended 30 June 2021 ($20.7 million, 2019-20). In June 2021, HomeStart paid 80% of the total dividend with the remaining 20% to be paid in June 2022.

The actual dividend based on the payout ratio of 100% of actual after tax profit was $34.7 million. HomeStart paid a dividend amount of $25.0 million to the Department of Treasury and Finance prior to the end of the financial year ($20.7 million, 2019-20). The amount of dividend payable of $9.7 million is disclosed in note 24 as provision for dividend. HomeStart will pay this residual dividend amount of $9.7 million in respect of the financial year ended 30 June 2021 in June 2022 ($1.2 million, 2019-20).

NOTE 25 Other liabilities

25.1 Other liabilities	2021 $'000	2020 $'000
Workers compensation provision	41	41
Wyatt Benevolent Institution	2,192	2,190
Affordable Housing Fund (Starter Loan)	3,126	555
Make good provision	400	400
City of Salisbury	3	4
Total other liabilities	**5,762**	**3,190**

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 is an initiative of the 2019 South Australia State Budget and supported by the Affordable Housing Fund. 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.

25.2 Make good provision	2021 $'000	2020 $'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. Management has decided to early adopt the updated APS 220 and has transferred the general reserve for credit losses back to retained earnings.

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:

	2021 $'000	2020 $'000
Within one year	900	105
Later than one year but not later than five years	213	-
Later than five years	-	-
Total capital commitments	**1,113**	**105**

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:

	2021 $'000	2020 $'000
Within one year	123	123
Later than one year but not later than five years	123	246
Later than five years	-	-
Total commitments	**246**	**369**

HomeStart's notable software licence commitments in 2021 and 2020 are in relation to the Loan Origination System and Microsoft software suite.

27.3 Commitments to extend credit to customers

Contractual commitments for loans either approved but not settled or settled but not fully drawn at the balance date amounted to $172.7 million ($74.2 million, 2019-20).

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 $68.5 million ($67.2 million, 2019-20).

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 2021 $'000	Transaction values for the year ended 30 June 2020 $'000
Interest expense	(12,695)	(25,587)
Other income - CSO subsidy	7,553	7,256
Other expenses - external auditor's remuneration	(173)	(183)
Other expenses - insurance	(112)	(135)
Government guarantee fee	(22,937)	(27,519)
Income tax equivalents expense	(14,882)	(9,366)

	Balance as at 30 June 2021 $'000	Balance as at 30 June 2020 $'000
Financial investments - Wyatt	1,057	855
Payables - accrued interest & guarantee fee	(1,089)	(1,261)
Derivative financial instruments	(1,269)	(4,449)
Borrrowings	(2,071,797)	(2,022,492)
Income tax equivalents payable	(8,171)	(4,265)
Provision for dividend	(9,726)	(1,205)
Other liabilities - Wyatt and AHF Funds	(5,359)	(2,786)

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:	2021 $'000	2020 $'000
Cash and Cash equivalents disclosed in the Statement of Financial Position	5,565	4,235
Balance as per Statement of Cash Flows	**5,565**	**4,235**

See accounting policy in note 2.5.1.

30.2 Reconciliation of profit for the year to net cash provided by operating activities	2021 $'000	2020 $'000
Profit for the year	**34,726**	**21,855**
Add/less non cash items		
Depreciation and amortisation expense of non-financial assets	2,596	2,202
Unrealised change in fair value of loans	(4,883)	(450)
Bad debts written-off	765	1,796
Fees applied directly to loan accounts	(2,616)	(4,082)
Movement in assets and liabilities		
(Decrease) increase in provision for impairment	(2,719)	4,798
(Decrease) increase in deferred loan fee income	(724)	280
(Increase) decrease in deferred loan fee expense	(1,052)	(311)
(Decrease) increase in fair value adjustment	(1,812)	(1,789)
(Decrease) increase in payables	2,848	(1,233)
(Decrease) increase in provision for employee benefits	(282)	198
(Decrease) increase in other liabilities	-	-
(Decrease) increase in income tax equivalents payable	3,906	407
(Increase) decrease in financial and other assets	49	363
Net cash provided by operating activities	**30,802**	**24,034**

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 2019	**768,430**	**1,272,000**	**1,694**	**156,113**	**2,198,237**
Changes from financing cash flows					
Proceeds from borrowings	-	100,000	-	-	100,000
Dividends paid to SA Government	-	-	(489)	(21,855)	(22,344)
Repayment of leases	(608)	-	-	-	(608)
Repayment of borrowings	(117,938)	-	-	-	(117,938)
Total changes from financing cash flows	**(118,546)**	**100,000**	**(489)**	**(21,855)**	**(40,890)**
Non financing cash flow movements in lease liabilities	1,267	7,480	-	(545)	8,202
Total equity-related other changes	-	-	-	18,445	18,445
Closing balance at 30 June 2020	**651,151**	**1,379,480**	**1,205**	**152,158**	**2,183,994**
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)
Reclassification from long term to short term	-	-	-	-	-
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**

NOTE 31 Financial risk management

31.1 Overview

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

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

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

HomeStart's Board of Directors has overall responsibility for the establishment and oversight of HomeStart's risk management framework. The Board has established the Asset and Liability Committee (ALCO) and Audit Committee to develop and monitor HomeStart's risk management policies. In addition, a Board Credit Sub-Committee has been formed to review and recommend approval of individual loan applications which will result in an aggregate exposure to the borrower ≥ $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 of adherence to approved lending and arrears management policies.

(b) *Risk control and mitigation policies*

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

Lending policies

HomeStart's approved lending policies require verification of the customer's income and expenses, and include independent credit checks. HomeStart does not rely on reduced documentation or self-verification of income by borrowers.

Collateral

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

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

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

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

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

Past due but not specifically impaired	2021 $'000	2020 $'000
Gross carrying value	91,619	85,668
Fair value of collateral	143,580	132,657
Specifically Impaired		
Gross carrying value, before specific provision for impairment	40,313	50,983
Unearned income on impaired loans	(1,676)	(1,982)
Lifetime ECL credit impaired - specific provision	(5,329)	(7,839)
Net loans and advances under specific provision	**33,308**	**41,162**
Fair value of collateral	43,795	54,419

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%, 2019-20) of HomeStart's loans by value are secured against properties outside the Adelaide metropolitan area.

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

At reporting date, 33% (33%, 2019-20) 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 $2.122 billion ($2.060 billion, 2019-20).

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

	2021					2020
	Stage 1 Collective Provision 12-months ECL $'000	Stage 2 Collective Provision Lifetime ECL not credit impaired $'000	Stage 3 Collective Provision Lifetime ECL credit impaired $'000	Stage 3 Specific provision Lifetime ECL credit impaired $'000	Total $'000	Total $'000
Low risk	1,468,517	217,978	2,543	16,836	1,705,874	1,636,039
Moderate risk	286,439	95,016	1,306	15,387	398,148	385,400
High risk	20,500	23,436	507	8,978	53,421	80,089
Gross loans and advances	**1,775,456**	**336,430**	**4,356**	**41,201**	**2,157,443**	**2,101,528**
Fair value adjustment					(7,038)	(8,850)
Deferred loan fee income					(10,843)	(11,568)
Deferred loan fee expense					5,096	4,043
Unearned income on impaired loans					(1,676)	(1,982)
Provision for credit impairment					(20,668)	(23,388)
Net loans and advances					**2,122,714**	**2,059,783**

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

	2021 $'000	2020 $'000
<30 days	75,705	66,029
30 – 59 days	9,212	10,173
60 – 89 days	2,327	3,015
90 – 179 days	3,006	3,654
>179 days	1,369	2,797
Total	**91,619**	**85,668**

(1) Loans and advances renegotiated

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

HomeStart assesses arrears capitalisation on a case-by-case basis and decisions are based on indicators or criteria which, in the judgement of Management, indicate that payment will most likely continue. These policies are reviewed periodically. HomeStart may reduce the required loan repayment due to financial difficulties of a customer provided the projected loan term is within normal lending criteria.

The gross carrying amount of loans that have been renegotiated under these criteria within the last 12 months that may otherwise be past due or impaired totalled $4.6 million as at 30 June 2021 ($4.2 million, 2019-20).

(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 $1.02 million as at 30 June 2021 ($2.3 million, 2019-20).

31.2.2 Derivative financial liabilities

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

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

(b) *Maximum exposure to credit risk*

As at 30 June 2021 and 30 June 2020, HomeStart did not have any exposure to credit risk arising from derivative financial liabilities.

	2021 $'000	2020 $'000
Derivative financial instruments	**(1,269)**	**(4,449)**
Swap income receivable	2	7
Swap expense payable	(92)	(116)
Net payable (note 21.1)	**(90)**	**(109)**

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 2021 ($2.460 billion, 2019-20).

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 2021 (40%, 2019-20) of total debt outstanding.

% of debt subject to refinancing in the next 12 month period	2021	2020
At 30 June	4.82%	32.16%
Average for the period	9.36%	13.72%
Maximum for the period	31.92%	32.16%
Minimum for the period	4.31%	4.92%

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

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**

2020 Liabilities	Up to 1 month $'000	1-3 months $'000	3-12 months $'000	1-5 years $'000	Over 5 years $'000	Total $'000	Carrying value $'000
Payables	2,636	-	-	-	-	2,636	2,636
Borrowings	103,296	6,286	575,922	1,187,726	259,648	2,132,878	2,030,631
Other financial liabilities	-	2,132	3,338	-	-	5,470	5,470
Total liabilities (contractual maturity dates)	**105,932**	**8,418**	**579,260**	**1,187,726**	**259,648**	**2,140,984**	**2,038,737**

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
2021	(188)	(311)	(1,216)	(1,356)	(100)	(3,171)	(1,269)
2020	(249)	(151)	(1,579)	(2,448)	(18)	(4,445)	(4,449)

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 2021, HomeStart had floating/fixed swaps with a notional value of $526.0 million ($252.0 million, 2019-20) with fixed rates varying between 0.03% and 4.84% (0.13% and 5.98%, 2019-20).

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 2021, a $3.2m gain ($0.2 million loss, 2019-20) 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.

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**

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

31.4.4 Breakthrough and Shared Equity Option Loan property price risk

(a) *Risk control and mitigation policies*

HomeStart is exposed to property price risk arising from the shared appreciation component of Breakthrough and Shared Equity Option Loans made to customers that are measured at fair value through profit or loss.

The fair value of this loan is based on the value of the property pledged as collateral (note 2.5.3.2).

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

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

(b) *Maximum exposure to property price risk*

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

(c) *Sensitivity analysis*

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

	2021 Carrying amount $'000	-5%	+5%	2020 Carrying amount $'000	-5%	+5%
Breakthrough Loan	41,884	(2,666)	2,689	43,675	(2,727)	2,816
Shared Equity Option Loan	8,412	(421)	421	5,414	(271)	271
Total increase/(decrease) in profit before tax and equity		**(3,087)**	**3,110**		**(2,998)**	**3,087**

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 16).

(c) *Sensitivity analysis*

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

For the year ended 30 June 2021, 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.

		2021		2020	
Financial assets	**Category**	**Carrying value $'000**	**Fair value $'000**	**Carrying value $'000**	**Fair value $'000**
Cash and cash equivalents	N/A	5,565	5,565	4,235	4,235
Investments	Amortised cost	1,057	1,057	855	855
Loans and advances [1]	Amortised cost	2,122,314	2,122,940	2,059,783	2,062,185
Loans and advances	FVTPL	127,281	127,281	127,874	127,874
Other financial assets	Amortised cost	271	271	317	317
Total financial assets		**2,256,488**	**2,257,114**	**2,193,064**	**2,195,466**
Financial liabilities					
Borrowings and Leases [2]	Amortised cost	2,079,318	2,100,096	2,030,631	2,035,986
Derivative financial instruments	Hedge accounting (fair value through OCI)	1,269	1,269	4,449	4,449
Payables	Amortised cost	3,355	3,355	2,636	2,636
Income tax equivalents payable	Amortised cost	8,171	8,171	4,265	4,265
Provision for dividend	Amortised cost	9,726	9,726	1,205	1,205
Other liabilities	Amortised cost	5,762	5,762	3,190	3,190
Total financial liabilities		**2,107,601**	**2,128,379**	**2,046,376**	**2,051,731**
Net financial assets		**148,887**	**128,735**	**146,688**	**143,735**

[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 2021.

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 94.1% (93.1%, 2019-20) 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.

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)**

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

32.4 Reconciliation of Level 3 fair value measurements

	2021 $'000	**2020 $'000**
Fair value at 1 July	**127,874**	**129,538**
Breakthrough Loan discharges	(6,201)	(5,652)
Shared Equity Option Loan settlements	2,955	2,081
Shared Equity Option Loan discharges	(430)	(422)
Seniors Equity Loan settlements and drawdowns	6,882	10,504
Seniors Equity Loan discharges and payments	(8,682)	(7,595)
Unrealised change in fair value of loans (notes 12 and 5)	4,883	450
Other	-	(1,030)
Fair value at 30 June	**127,281**	**127,874**

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

NOTE 33 Events after the reporting period

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

NOTE 34 COVID-19 pandemic outlook for HomeStart

The COVID-19 pandemic will continue to impact the operations of HomeStart in 2021-22. The key expected impacts are:

- It is expected that weaker economic conditions will make it more difficult for some customers to service their loans, and may lead to a rise in the value of the portfolio entering Stage 3 of the ECL model due to credit impairment. Refer to note 15.1.
- The financing of house and land packages represents a significant proportion of HomeStart's new lending, with activity levels during 2020-21 stimulated by Commonwealth Government policy settings arising from the pandemic. Some demand from this program is expected to continue into 2021-22, but overall activity levels are expected to fall.

INDEPENDENT AUDITOR'S REPORT

Government of South Australia
Auditor-General's Department

Level 9
State Administration Centre
200 Victoria Square
Adelaide SA 5000

Tel +618 8226 9640
Fax +618 8226 9688

ABN 53 327 061 410

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

To the Chair
HomeStart Finance

Opinion

I have audited the financial report of HomeStart Finance for the financial year ended 30 June 2021.

In my opinion, the accompanying financial report gives a true and fair view of the financial position of HomeStart Finance as at 30 June 2021, 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 2021
- a Statement of Financial Position as at 30 June 2021
- a Statement of Changes in Equity for the year ended 30 June 2021
- a Statement of Cash Flows for the year ended 30 June 2021
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Chair, the Deputy Chair, the Chief Executive Officer and the Chief Financial Officer.

Basis for opinion

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

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

Responsibilities of the Chief Executive and Board for the financial report

The Chief Executive 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 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 27(4) of the *Urban Renewal Act 1995*, I have audited the financial report of HomeStart Finance for the financial year ended 30 June 2021.

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
- conclude on the appropriateness of the Chief Executive'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. 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 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
22 September 2021

HomeStart Finance

Adelaide office address
Level 5 169 Pirie Street
Adelaide SA 5000

South office address
Unit 3/378 Main South Road
Morphett Vale SA 5162

North office address
Unit 1/40-42 Commercial Road
Salisbury SA 5108

Postal address
GPO Box 1266
Adelaide SA 5001

ABN 82 829 169 885
Australian credit licence 388466
ISSN 1834–1810

Auditors
Auditor-General of South Australia

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

1300 636 878
homestart.com.au

Government of South Australia

HomeStart FINANCE