ANNUAL REPORT

2013-14

Government of South Australia

HomeStart Finance

CONTENTS

LETTER OF TRANSMITTAL

30 September 2014

The Hon John Rau MP
Minister for Housing and Urban Development
Parliament House
North Terrace
Adelaide SA 5000

Dear Minister,

HomeStart Finance 2013-14 Annual Report

It gives me great pleasure to present a summary of HomeStart's achievements over the 2013-14 financial year.

Contributing to the state government's strategic priority to create an affordable place to live, HomeStart helped 1344 households purchase their own home.

A total of 743 home buyers used government grants to help build or buy their home while others took advantage of the stamp duty concessions, enabling them to get started sooner.

Highlighting the role we play as a stepping stone for people to advance along the housing continuum, the majority of our new customers would not have been able to secure finance elsewhere.

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

Yours sincerely,

John Oliver
Chief Executive Officer
HomeStart Finance

REPORT FROM CHAIR

I am pleased to report that in 2013-14, HomeStart assisted 1344 South Australian households to achieve home ownership. This included 743 first-time home owners so we are well on track towards achieving our strategic goal to be the place where first home buyers start.

Notably, we have exceeded the financial targets set by the state government in its formal agreement with HomeStart, including a Return on Equity of 10.21% with a profit of $17.0 million.

These results were achieved despite what many experts say is a South Australian property market navigating uncertain territory. Although interest rates were low and there were signs of growth, the property market was subdued in 2013-14. Consumers remained cautious, reflected by the downward trend in consumer confidence and reduced spending.

Future demand will certainly be affected by the end of the First Home Owners Grant for established homes as it will be the first time in many years that no grant assistance will be available. There was, however, and will continue to be the $15 000 grant for newly built homes. In addition, stamp duty concessions on inner city apartments will also help support the construction industry and generate new housing supply.

Affordability remained the key challenge for the average home buyer as Adelaide's median house price peaked at $418 150 according to Real Estate Institute of Australia June quarter 2014 data. Coupled with a rise in unemployment, HomeStart continued to carefully monitor the external business environment while being true to our business strategy.

These challenges are similar to what many businesses throughout South Australia face and I'm pleased to report that the team at HomeStart is single-minded in its efforts to deliver a range of quality housing outcomes for the state.

This is especially exciting as it is my first year as Chair of the board and 2014 marks HomeStart's 25th year of operation. Such a milestone is an opportune time to reflect on what has been achieved over a generation:

- more than 64 850 households into home ownership
- $416.2 million returned to government
- profitability every year of operation
- 25% return on investment for the state in 2013-14.

The vital role that we play in the home lending space is evident in the fact that 80% of this year's customers would not have been able to secure finance from a mainstream lender at the time of their application. On the surface this may appear as a high level of risk, however we have a range of procedures and practices that successfully equate to a balanced portfolio, including our risk appetite statement and a prudent approach to managing arrears levels and the growth of the portfolio.

This approach gives us the opportunity to help beyond just the average home buyer but those in need of a step-up with our subsidised loan options.

Hence, I cannot over state the commitment of HomeStart's employees and senior management as many of these achievements over this period are a result of their hard work and dedication.

Over the financial year, the board oversaw the successful execution of the existing Strategic Plan and will soon turn its mind, along with senior management, to review how best to improve our strategy in the coming years. We also had a carefully planned board renewal process that was started by my predecessor, Claude Long.

I would like to sincerely acknowledge Claude's work. As Chair of the board for seven years, his strong and consistent leadership has been instrumental to HomeStart's continued success. I also extend thanks to outgoing member David Garrard and welcome the input of new members Darryl Royans and Roseanne Healey.

In the year ahead, HomeStart will focus on achieving the final stage of its 2012-15 Strategic Plan and I, along with the members of the board, look forward to guiding the business through yet another year of solid achievements.

Jim Kouts
Chair

REPORT FROM CEO

Our achievements are based on the quality of our people. Without the commitment, passion and energy they bring to work each day, HomeStart would not have been able to deliver both the financial and social outcomes that have made for a very successful 2013-14 year. I truly believe that our people's focus on the work they do and on our customers, is what continues to fulfil our reason for being; making home ownership a reality for more people in more ways.

I am particularly proud of the progress we have made in achieving many aspects of our Strategic Plan. We have had an exciting year of change with many improvements in our systems and processes plus the delivery of key projects. Our internal focus on capacity building and customer service enabled us to assist 1344 customers to buy their own home.

During 2013-14, we had the privilege of hearing some great customer stories that have inspired us all. Exploring our community engagement philosophy to connect with local communities, we have started building relationships with Bhutanese, Burmese and Afghani communities to better understand how we can help them get into their own homes sooner.

In consultation with the Australian Refugee Association, a range of initiatives including seminars in other languages, translated documents and staff cultural competency training are among the activities we have begun and will continue to develop in order to connect with other communities as well.

June 2014 marked a milestone celebration of 100 Bhutanese HomeStart customers, most of whom battled harrowing adversities over many years as refugees in Nepal before resettling in South Australia. As one of the smaller refugee communities of just 250 families within the state, we have been so pleased to make such a big difference in helping this community buy their own homes.

Helping others to get started, HomeStart worked with the Adelaide City Council to develop a shared appreciation loan that helped 52 first home buyers purchase an affordable inner city apartment within the Ergo Apartment development. We will continue to look for opportunities to collaborate with local councils and other government bodies to create new and innovative pathways for people to get into home ownership.

Another area of our focus has been to address housing affordability, the main hurdle for home buyers. To do so, we broadened the eligibility criteria of our subsidised Advantage Loan that helps boost borrowing capacity. This helped more customers afford a home better suited to their needs or to purchase in their preferred suburb as the additional loan of up to $45 000 made a big difference for many.

Keeping abreast of digital trends, refreshing our website homestart.com.au was another milestone we completed in 2013-14. This work included a new design and optimising the website for mobile and tablet devices in line with best practice.

The standout project of the year was the implementation a new Front End Loan System in October. This was the largest IT project that HomeStart had ever undertaken and involved, at times, more than half our entire team. The project was delivered on time and within budget, no mean feat for such a major project and a further demonstration of the commitment and dedication of our people. It moves HomeStart from a world of loan applications submitted on paper or by fax, to a sophisticated, automated electronic solution from a customer's initial enquiry through to loan settlement. Our broker network now has access to a system that enables them to directly upload documentation and view the progress of each of their loan applications, automating communication and providing more transparency in our processes.

Most importantly the system strengthens HomeStart's core capability, streamlining lending practices and processes, and ultimately reducing risk. Further, it provides the infrastructure to enable us to broaden our reach with existing and potential new distribution partners to ensure our products and services are able to reach more potential homebuyers.

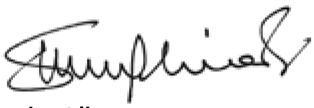
REPORT FROM CEO

During this time of major change, we endeavoured to keep our people engaged by introducing regular Pulse Surveys to gather feedback and highlight areas in which we were succeeding and those which needed tweaking. This insight helped us adapt business needs as well as provide another avenue through which our people could give feedback about the work environment and our culture.

In this regard, HomeStart has remained committed to developing its employees by investing in training and building leadership capacity. We also introduced 'Samurais' to champion our Operational Excellence framework that tackles waste in our procedures and implements new solutions, big or small. Simplicity for ourselves and our customers has been a key aspiration throughout the financial year while we continued to embed Operational Excellence principles into daily practice.

Lastly, I would like to thank our board for their wisdom, insight and support of the entire team at HomeStart. I welcome our Chair, Jim Kouts to his new role and I look forward to working more closely with him over the coming years. I also wish to acknowledge the contribution that our former Chair, Claude Long made to HomeStart. His commitment and passion, along with his candour and uncompromising support for HomeStart, was a significant factor in many of our achievements during his years with us.

As we embark on our 25th year of operation in late 2014, I look forward to recognising that anniversary, celebrating the HomeStart journey and achievements with all who have contributed to our success over those 25 years; and then working with our team to ensure the sustainability of HomeStart for the future.



John Oliver
Chief Executive Officer

OUR ORGANISATION

Twenty-five years after being created, our reason for being remains clear: making home ownership a reality for more people in more ways.

HomeStart Finance Ltd commenced operations on 5 September 1989 to manage the SA Government's home ownership programs. Established by regulation on 1 July 1995 as a statutory corporation under the *Housing and Urban Development (Administrative Arrangements) Act 1995*, HomeStart is empowered to:

- facilitate home ownership in South Australia by lending and providing other forms of financial assistance, including finance on concessional or special terms for low to moderate income earners
- provide, market and manage home finance products and facilitate alternative schemes to encourage home ownership, including mortgage relief schemes, as well as facilitating finance for the development of aged care residential accommodation or facilities.

HomeStart currently operates under the *Housing and Urban Development (Administrative Arrangements) (HomeStart Finance) Regulations 2007*.

SA government strategic priorities

Reporting to the Minister for Housing and Urban Development, we contribute to the seven strategic priorities of the state that make a difference to the future prosperity of South Australia.

These priorities are:

- creating a vibrant city
- an affordable place to live
- safe communities, healthy neighbourhoods
- every chance for every child
- grow advanced manufacturing
- realising the benefits of the mining boom for all South Australians
- premium food and wine from our clean environment.

In particular, HomeStart contributes to creating an affordable place to live with the provision of innovative home loans that enable South Australian families to purchase a home of their own sooner.

Through HomeStart, more people can afford to have a place to call home. This in turn assists with creating a vibrant city with safe and healthy neighbourhoods, realising the benefits that home ownership brings.

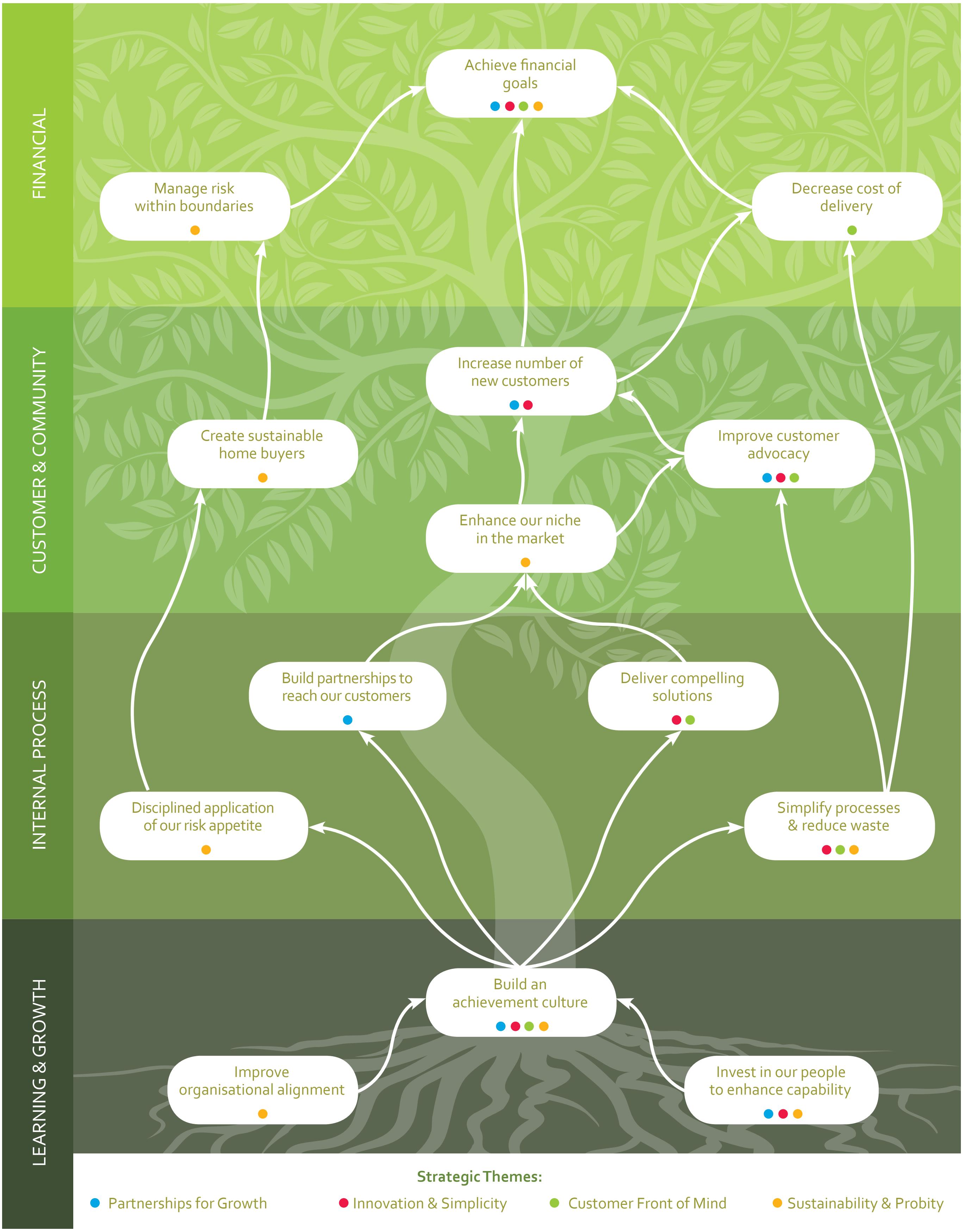
Our strategy

HomeStart developed its key priorities for 2012-15 using the principles of the balanced scorecard. Our priorities are to:

- make HomeStart the place first home buyers start
- increase the number of people we help
- build an achievement culture.

SOUTH AUSTRALIA

This strategy map highlights how we achieve our goals:



Strategic Themes:

- Partnerships for Growth
- Innovation & Simplicity
- Customer Front of Mind
- Sustainability & Probity

CUSTOMER & COMMUNITY

Our customers

In our 25 years of operation, we have helped more than 64 850 South Australian households into their own home.

The customers we help come from a range of backgrounds, circumstances and locations including:

- first home buyers looking to start in the market
- singles leaving their parents' home
- migrants from more than 102 countries setting permanent roots in South Australia
- graduates looking to start a family home
- single parents starting over after a split
- Housing SA tenants moving out of rentals
- seniors looking to fund lifestyle changes with a reverse mortgage
- moderate income households in need of a borrowing boost.

Of our 1344 customers this financial year:

- 743 were first home buyers
- 269 built new homes, representing 20% of new lending
- the average loan size was $222 305, a 4% increase on last financial year
- the average purchase price was $249 766
- 33% bought homes in the northern fringes of metropolitan Adelaide while 22% bought homes in the country
- 52% were leaving private rental
- 87% of the portfolio are in advance on their repayments
- 80% would not have been able to secure finance from a mainstream lender at the time of their application.

Lending

The local housing market showed signs of growth in 2014 due to a stable low cash rate environment and continued government housing grants. There was one change in the official cash rate from the Reserve Bank of Australia, bringing it to 2.50% in August 2013, a historical low for the domestic cash rate.

Real Estate Institute of Australia (REIA) data showed a 5% annual growth in Adelaide's median house prices with the March quarter 2014 peaking at $413 750.

While Adelaide was in a better housing affordability position compared to the other state capitals, unemployment rose and Adelaide's northern suburbs will be hit further by the Holden plant closure in 2017.

Housing finance and building approvals picked up in the latter half of the financial year, mainly in the owner-occupier segment as home buyers rushed in to take advantage of the $5000 First Home Owners Grant (FHOG) for established homes ending on 30 June 2014. The continuation of the $15 000 FHOG for newly built homes helped improve housing supply and this financial year we saw an 18% increase in the number of residential homes approved for construction.

Reflecting a recovering housing market, HomeStart settled 1344 loans, reaching 93% of its new lending target for 2013-14. This equated to $283.5 million in settlements which is an increase of 7% compared to last financial year.

Our loans

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

Graduate Loan

Since 2002, the Graduate Loan has helped 2134 graduates buy a home with a 3% deposit to buy an established home, or a 6% deposit to build. Eligible qualifications include a diploma, degree or higher qualification, as well as specific tradespeople and technicians with a Certificate III/IV, South Australian Police Officers and nurses. In 2013-14, 135 loans were settled.

Low Deposit Loan

The Low Deposit Loan offers a 3% deposit option to buy an existing home in metropolitan South Australia. It is a good option for first home buyers and next home buyers. A total of 50 customers chose this loan this financial year.

Breakthrough Loan

This is a shared appreciation loan that enables many home buyers to afford a better home or refinance after a change in circumstances. The Breakthrough Loan is combined with another HomeStart loan under a shared appreciation arrangement, which means that customers share a portion of their home's change in value with HomeStart when the property is sold or they refinance.

Many customers choose this loan to reduce their ongoing loan repayments or to increase their borrowing capacity by up to 30%. A total of 60 loans worth $17.6 million (Breakthrough Loans plus HomeStart loans) were written in 2013-14.

Advantage Loan

This is an additional loan of up to $45 000 for people earning under $60 000 p.a. after tax. It helps home buyers increase their borrowing capacity without a corresponding increase in 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.

During 2013-14, HomeStart increased the income eligibility criteria from $40 000 to $60 000 and increased the maximum loan amount available from $30 615 to $45 000 to ease home loan affordability. This saw an increased demand for the loan with settlements totalling $7.6 million in value.

Since 1993, the Advantage Loan has helped more than 11 100 households achieve their home ownership aspirations with 307 loans this financial year. This is an increase of 75 loans compared to last financial year.

EquityStart Loan

The EquityStart Loan is a joint initiative with the Department for Communities and Social Inclusion. It is a secondary loan of up to $50 000 for current Housing SA tenants, combined with a HomeStart loan to boost borrowing power. Customers can use the loan to buy the Housing SA home they're living in (if it is available for sale), another Housing SA property, buy on the private market, or build.

A total of 41 EquityStart Loans were settled this financial year, bringing the number of loans since inception in 2005 to 1304.

Wyatt Loan

In conjunction with the Wyatt Trust, HomeStart offers eligible low income households struggling to meet the upfront costs of home ownership a loan of up to $10 000. The Wyatt Loan is taken out with a 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.

In 2013-14, 30 Wyatt Loans were settled to a value of $236 000.

Loans for construction

Continuation of the $15 000 First Home Owners Grant for new homes fuelled demand from home buyers. A total of 269 loans worth $73 million were settled for construction, a 29% increase in value compared to last financial year.

Working with the Adelaide City Council under a shared appreciation arrangement, HomeStart settled 52 Ergo Apartment Loans that helped home buyers purchase an inner city apartment. Eligibility was determined under the Affordable Homes program and the Adelaide City Council extended the shared appreciation component. Stamp duty concessions were also available to many home buyers purchasing other properties within inner city Adelaide.

HomeStart worked with a range of builders including Hickinbotham and Devine to offer construction loan options to help first home buyers get started from as little as $3000 upfront.

Seniors Equity Loan

HomeStart offers a reverse mortgage product for over 60s looking to unlock the equity in their home. This helps seniors fund lifestyle expenses, home renovations or to supplement their income. There were 95 settlements this financial year which is an increase of 16% compared to last financial year. More activity within the reverse mortgage market is anticipated as more baby boomers move into retirement.

Customer service

Our customers contact us in a range of ways including face-to-face, over the phone and online through our social media channels and homestart.com.au. We also provide translator services to assist customers from culturally and linguistically diverse backgrounds.

During the financial year, homestart.com.au was refreshed in design and optimised for mobile and tablet devices, making it easier for people to use, read and find content. This optimisation was timely, as the number of visitors using a mobile or tablet device increased to 40% of total visits.

The corporate website had 195 327 users (a 17% increase from 2012-13), and the online learning centre for aspiring home buyers mystart.com.au had 54 214 users (a 42% increase from 2012-13).

HomeStart's Facebook community of existing and potential customers experienced an 80% increase of lifetime likes reaching 4770 as at 30 June 2014. Our YouTube videos had 34 358 views during 2013-14, and a lifetime total of 46 943 views.

Out in the market, HomeStart continued to promote its 'Sooner' marketing campaign, highlighting our key messages via television, cinema and online advertising. This campaign focussed on HomeStart's ability to help customers get into their own home sooner:

- with as little as 3% deposit
- with less costs upfront
- by boosting their borrowing capacity without increasing monthly loan repayments.

HomeStart primarily receives enquiries via its customer contact centre. This year we received 22 177 enquiries. Eligible leads from these enquiries were referred to our Adelaide head office and loan managers, resulting in 34% of all loan settlements in 2013-14.

Since 2010, HomeStart has used the Net Promoter Score (NPS) to measure customer satisfaction and loyalty by asking one simple question, 'Would you recommend HomeStart to your friends and family?'. The NPS allows us to track and act on customer sentiment to make sure we are providing a good customer experience. In 2013-14, HomeStart's average NPS score was 34, up four points on last financial year and well above the industry average.

Distribution

HomeStart works with three distribution channels: an Adelaide head office, four loan managers (BankSA, The Home Loan Centre, Homeloans Plus and Bernie Lewis), and a broker network of 11 partners. During 2013-14, The Home Loan Centre was purchased by Australian Associated Advisers Pty Ltd trading as KeyInvest Lending Services, who will continue to trade under the name and manage the portfolio.

Our brokers settled 356 new loans worth $85.7 million, representing 30% of new lending and an increase of 21% compared to last financial year. HomeStart now has 261 accredited brokers who can offer a range of our loans, with 78 new brokers accredited this financial year.

In line with our strategic goal to simplify processes and improve customer advocacy, HomeStart implemented a new Front End Loan System (FELS) called Lendfast in October 2013. Most of the organisation was heavily involved, representing our largest ever IT investment, the project spanning over 20 months.

The innovative electronic loan processing system will help cut loan file touch time by at least 50% once fully operational. Its integration with external bodies, such as credit rating agency Veda, and Australia Post's on-line address verification tool, will streamline our processes and increase our internal lending capabilities. Lendfast is LIXI compliant, providing an integrated gateway between our broker network and Lendfast. Other benefits include reduced processing times, seamless data entry and a reduction in annual paper usage by an estimated 300 000 sheets.

Lendfast comprises three modules: Quote, Apply and Tracker. Quote in particular is a custom built quoting system developed by Sandstone Technology that brings HomeStart to the forefront of lending industry standards with increased accuracy in calculating borrowing capacity with built-in policy rules. Tracker software enables brokers to lodge and track loan applications electronically, improving our service levels and transparency on individual application status.

HomeStart's investment in this technological suite of applications will help support the anticipated growth in the number of loans brought in by our distribution channels as we aim to source 50% of new lending from brokers by 2016. With the efficiencies gained from the new system, the loan administration and customer contact centre teams have been amalgamated and employees cross-skilled.

Community lending

HomeStart's specialist community lending team has achieved 403 community housing outcomes to the value of $42.7 million in loans. They partner with federal and state government agencies that provide grant funding, as well as benevolent associations who provide gift funding, to deliver community lending finance to community housing organisations.

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

In 2013-14, HomeStart assisted in funding part of a $22 million Unity Housing project, which has been supported by the state government and regional development boards. This will see 102 homes built in 11 locations including Port Augusta, Whyalla, Port Pirie, Laura, Melrose and Burra.

HomeStart has also funded projects with Lutheran Housing and Community Housing Limited.

Community contribution

HomeStart supports the community through sponsorships, seminars, corporate volunteering and donations. We establish and maintain relationships with a wide variety of organisations, not-for-profits, and events that share our values, enrich the community and make positive social change for the state.

We support programs and initiatives in four key areas:

1. **Education and youth**
   Helping young people develop their personal life or academic skills.
2. **Community wellbeing**
   Contributing to the community through sport, health, disability and arts.
3. **Shelter**
   Providing shelter or support services for people in need, or helping them move through the housing continuum.
4. **Cultural diversity**
   Connecting with South Australian communities through capacity building, education and meaningful support.

Sponsorships

Our sponsorships reflect the values of our brand, our employees and our desire to make a difference. All of the organisations we support are focused on improving local communities and helping more South Australians to reach their goals.

Operation Flinders

HomeStart has been sponsoring Operation Flinders for five years, and going forward the event name will change from the Trailblazer Challenge to the HomeStart Operation Flinders Challenge. The 2013-14 event raised $186 000 with 1110 participants supporting the cause to help youth at risk.

Channel 9 Young Achievers Awards

HomeStart continued to support the Channel 9 Young Achievers Awards as principal prize sponsor.

Building Cultural Bridges - Cycling for Culture 2013

HomeStart helped sponsor an inaugural fundraiser to raise awareness of the role of Aboriginal culture and individual wellbeing in the community by supporting Kaurna language development.

Australian Refugee Association (ARA)

By supporting the Amble for ARA team fundraising effort as part of the City to Bay, HomeStart has been able to connect with niche migrant communities and their leaders to promote HomeStart.

Seminars

HomeStart hosts free seminars to help educate the public on the home buying process. Five seminars were held in 2013-14 with 327 attendees. There were also two seminars held for the Real Estate Institute of South Australia.

To better cater to migrant communities, work has begun on delivering educational seminars in multiple languages and the first of these was held for the Burmese community in 2013-14.

Corporate volunteering

HomeStart offers all employees one day of corporate volunteer leave per year that they can use to help provide valuable skills and hands on assistance to approved organisations.

Donations and fundraising

In 2013-14, HomeStart helped the following organisations by way of donation towards their causes:

- SIDS and Kids
- Hutt Street Centre
- BankSA Staff Charitable Fund
- Riding for the Disabled SA
- Burundi Soccer Club
- Operation Flinders
- Time for Kids
- Bhutanese Soccer Carnival
- Streetsmart Booklet (Federal Police Welfare Department)
- HeartKids
- Technical Aid to the Disabled SA.

LEARNING & GROWTH

Our people

HomeStart's Strategic Plan is underpinned by our objective to build an achievement culture. We believe organisational performance can be optimised by empowering employees while they undertake the activities that achieve our goals. By carefully investing in building the skills and capabilities of our people, we can foster an achievement culture.

Here are some of the highlights from 2013-14:

Employee engagement

This financial year, HomeStart introduced employee engagement surveys called Pulse Surveys. These surveys provide a measure of employee engagement at a given point in time so that we can determine areas for improvement as well as recognising what we are doing well.

Pulse Surveys give employees the opportunity to submit feedback about their working environment which assists in measuring and improving our strategic objective to improve organisational alignment. Pulse Surveys are conducted triannually with action planning occurring after each survey to tackle the specific issues raised.

Total Rewards

Our Total Rewards program encompasses an employee value proposition that underpins various benefits to encourage employee performance. This links to our strategic goal of building an achievement culture and ensures employees are remunerated and rewarded in a fair and consistent way through practices that are internally equitable and externally competitive.

Performance management

All employees participate in a regular program of one-on-one meetings with their leaders. These support biannual formal reviews where individual performance is assessed using a four point rating scale that measures business, behavioural and development objectives. This process ensures HomeStart has the right people and processes to achieve the goals set in our Strategic Plan.

Fairness and equity

One-up manager reviews for end-of-year performance reviews are used to ensure fairness and equity when reviewing objectives during the performance management process. Divisional calibration also occurs to ensure consistent criteria are used to distinguish between expected and outstanding performance.

Employee development

HomeStart spent 4.85% of the overall salary budget on developing the interpersonal and professional skills of our employees through a range of formal tertiary and tailored learning opportunities.

Some of the employee qualifications attained this year include:

- Diploma of Financial Management and Mortgage Lending
- Certificate III in Financial Services
- Diploma of Project Management.

We remained committed to building our people and leadership capability and provided the following learning opportunities:

- presentation skills
- 'Increase Your Positive Impact'
- external coaching for people leaders and highly valued employees.

Training was also conducted for around 150 HomeStart employees and loan manager staff for the implementation of our new Front End Loan System.

Consultative Committee

HomeStart's Consultative Committee shapes employment conditions, policies and practices by raising employment related topics in conversations with management. The committee meets six-weekly and consists of a Chair, a people leader representative and an employee representative from each division.

Workplace benefits

HomeStart offers flexible work arrangements to balance the needs of employees and the business. These include:

- five weeks of annual leave
- voluntary flexible work arrangements, including job share, work from home, part-time work
- family, carer's and bereavement leave
- 16 weeks paid maternity leave (or 18 weeks for employees who have been employed for more than five years) and four weeks paid paternity leave
- the ability to purchase additional annual leave
- leave to support further study
- an annual Healthy Lifestyle Benefit for participation in activities or programs that contribute to a healthy lifestyle
- influenza vaccinations
- blood donation program
- salary continuance (income protection) insurance
- corporate volunteering program
- Employee Assistance Program offering access to counselling services
- wellness program.

Learning and growth statistics

Documented review of individual performance management

Employees with	% of workforce
A review within the past 12 months	95.1%
A review older than 12 months	0.0%
No review*	4.9%

*new employees at HomeStart and/or casual

Cultural and linguistic diversity

	Male	Female	Total	% of workforce	SA community*
Number of employees born overseas	18	20	38	36.9%	22.1%
Number of employees who speak language(s) other than English at home	3	7	10	9.7%	14.4%

* benchmarks from ABS Publication Basic Community Profile (SA) Cat No. 2001.0, 2011 census

Employee numbers, gender and status

Total number of employees*	
Employees	103
Full-time equivalents (FTEs)	96.4

Gender	% Employees	% FTEs
Male	48.5%	51.6%
Female	51.5%	48.4%

*excludes employees on leave without pay

Number of employees during the 2013-14 financial year	
Separated from HomeStart	20
Recruited to HomeStart	15
Number of employees at 30 June 2014	
On leave without pay	2

Number of employees by salary bracket

Salary bracket	Male	Female	Total
$0 - $54 799	7	10	17
$54 800 - $69 699	10	17	27
$69 700 - $89 199	11	13	24
$89 200 - $112 599	11	4	15
$112 600+	11	9	20
Total			**103**

Status of employees in current position

Full-time equivalents	Ongoing	Short-term contract	Long-term contract	Other (casual)	Total
Male	43.8	1.0	3.0	2.0	49.8
Female	40.8	3.8	2.0	0.0	46.6
Total	**84.6**	**4.8**	**5.0**	**2.0**	**96.4**

Number of employees	Ongoing	Short-term contract	Long-term contract	Other (casual)	Total
Male	44	1	3	2	50
Female	47	4	2	0	53
Total	**91**	**5**	**5**	**2**	**103**

Average days leave per full-time equivalent employee

Leave type	2013-14	2012-13	2011-12	2010-11
Sick leave	4.3	5.6	6.1	7.4
Family carer's leave	1.4	1.3	1.5	1.8
Miscellaneous special leave	0.7	0.6	0.8	0.5

Voluntary flexible working arrangements by gender

Leave type	Male	Female	Total
Purchased leave	1	0	1
Flexi-time	0	0	0
Compressed weeks	0	0	0
Part-time	1	18	19
Job share	0	2	2
Working from home	20	19	39

Aboriginal and/or Torres Strait Islander employees

Salary bracket	Aboriginal employees	Total employees	% Aboriginal employees	Target*
$0 - $54 799	0	17	0.0%	
$54 800 - $69 699	0	27	0.0%	
$69 700 - $89 199	0	24	0.0%	
$89 200 - $112 599	0	15	0.0%	
$112 600+	0	20	0.0%	
Total	**0**	**103**	**0.0%**	**2.0%**

* target from South Australia's Strategic Plan

Number of employees by age bracket and gender

Age bracket	Male	Female	Total	% of total workforce	Workforce benchmark*
15-19	0	0	0	0.0%	5.5%
20-24	0	0	0	0.0%	9.7%
25-29	2	3	5	4.9%	11.2%
30-34	3	7	10	9.7%	10.7%
35-39	6	11	17	16.5%	9.6%
40-44	10	8	18	17.5%	11.4%
45-49	6	10	16	15.5%	11.1%
50-54	11	7	18	17.5%	11.4%
55-59	5	4	9	8.7%	9.1%
60-64	5	3	8	7.8%	6.7%
65+	2	0	2	1.9%	3.6%
Total	**50**	**53**	**103**	**100.0%**	**100.0%**

* Source: Australian Bureau of Statistics Australian Demographic Statistics, 6291.0.55.001 Labour Force Status (ST LM8) by sex, age, state, marital status – employed – total from Feb78 Supertable, South Australia at November 2013

Leadership and management training expenditure

Training and development	Total cost	% of total salary expenditure
Total training and development expenditure (includes leadership and management development expenditure)	$499 441.79	4.85%
Total leadership and management development expenditure	$191 646.35	1.86%

Executives by gender and status

	Ongoing		Term Tenured		Term Untenured		Other (Casual)						Total
	Male	Female	Male	Female	Male	Female	Male	Female	Male	%	Female	%	Total
Total	–	–	3	1	–	–	–	–	3	75%	1	25%	100%

Total number of employees with disabilities

Male	Female	Total	% of workforce
0	0	0	0%

ORGANISATIONAL CHART

Minister for Housing and Urban Development

HomeStart Board

Chief Executive Officer

Executive Services

- Executive Assistant
- Legal

General Manager Strategy, People & Operations

- Strategy
- Human Resources
- Project Office
- Operational Excellence
- Marketing & Communications
- Product Development
- Information Technology
- Business Intelligence
- Facilities & Procurement

General Manager Retail

- Sales & Service
- Lending Operations
- Community Lending
- Origination
- Credit Management
- Real Estate

General Manager Treasury, Finance & Risk

- Treasury
- Policy and Compliance
- Asset & Liability Management
- Finance
- Information Assets Management

INTERNAL PROCESSES

Corporate governance

HomeStart Finance is a statutory corporation established by regulation under the *Housing and Urban Development (Administrative Arrangements) Act 1995* and currently operates under the *Housing and Urban Development (Administrative Arrangements) (HomeStart Finance) Regulations 2007*.

Under the state government's administrative arrangements, HomeStart falls under the Ministerial responsibility of the Minister for Housing and Urban Development, the Hon John Rau MP.

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

Board of Management

HomeStart is administered by a seven member Board of Management. Board 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 2013-14 are identified on page 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 Minister for Housing and Urban Development for overseeing HomeStart's business operations, with a particular focus on corporate accountability, strategic planning, monitoring, policy development and protecting the state government's financial and other interests in the organisation.

The following 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 external 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.

Asset and Liability Committee

This committee is chaired by Chris Ward and includes two other board member representatives. The Chief Executive Officer and General Manager, Treasury, Finance & Risk are also members of this committee. The committee ensures HomeStart:

- operates in a commercial manner and manages risk prudently
- maintains sound, prudent financial asset, liability and capital management practices that result in the long-term financial viability of HomeStart
- meets the state government's performance targets
- manages the Risk Transfer Vehicle in accordance with an established charter, policies and procedures
- monitors all credit and market risks.

Board Credit Sub-Committee

This sub-committee is chaired by Chris Ward and includes two other board member representatives. The sub-committee meets on an ad-hoc basis to consider large lending transactions 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 strategies and targets and policy directions.

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

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

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

Board member remuneration

Board 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 12 to the financial statements.

Board member benefits

During or since the 2013-14 financial year, no board member has received or become entitled to receive a personal benefit (other than a remuneration benefit included at note 12 to the financial statements) because of a contract made with HomeStart by:

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

Executive appointment and remuneration

Responsibility for executive appointment rests with the Board of Management and details of executive remuneration are set out at note 10 to the financial statements.

Risk management

HomeStart has an organisation-wide approach to managing risks to ensure they are identified and managed at all levels of our operations. Our Risk Management Policy reflects the South Australian Government Risk Management Policy Statement, relevant Treasurer's Instructions and commercial best practice.

While risk management remains the primary responsibility of the board, each 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 monitors all credit and market risks. In addition a Board Credit Sub-Committee has been formed to review and approve or recommend approval of individual loan applications which will result in an aggregate exposure to the borrower which exceeds $1.1 million.

Risk management is an integral part of our everyday work and is supported by a framework that involves all staff including:

- identification, assessment (using Australian Standard 31000) and recording of risks through Tickit On Demand, our online risk management system
- continuous monitoring and reassessment of risks and internal controls, prompted by Tickit On Demand's interactive email capability and regular discussion at team and executive level
- identification and assessment of risk incidents
- comprehensive reporting
- organisation-wide feedback on existing and emerging risks.

Strategic risk

Discussion and assessment of risks and opportunities form part of our strategic and business planning process to enable us to prioritise 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.

Credit risk

Credit risk is inherent in HomeStart's core function of lending. Lending policies are founded on sound credit risk management and behavioural intelligence, which is incorporated into each stage of a customer's loan application and ongoing loan management.

Regular and comprehensive reporting and monitoring take place to ensure that our policies result in sound lending decisions and arrears management practices. These are underpinned by credit risk systems that have been developed using a combination of theory and experience drawn from the behaviour of our customer base.

Market risk

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

Operational risk

Operational risks are those inherent in the day-to-day functions of HomeStart. The Tickit On Demand 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 in the Tickit On Demand system against the relevant risk and are investigated and dealt with promptly to mitigate any recurrence. This assists future risk assessment and encourages continuous improvement and accountability.

Compliance, internal control and assurance

Our board is responsible for overseeing HomeStart's compliance performance. The Audit Committee, in its key role of assisting the board to fulfil its corporate governance objectives, is responsible for monitoring and reviewing HomeStart's compliance performance. HomeStart's organisational compliance framework supports the identification and assessment of our legal obligations and management and monitoring of our compliance responsibilities on an ongoing basis. This framework is reviewed on a regular basis to reflect any relevant legislative changes or any organisational structure and subsequent role changes.

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

Executive and management are required to confirm to the board that effective risk management, internal control and compliance practices have operated throughout the year.

While fraud is a risk that 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 financial authorisations
- internal audit
- dual controls in appropriate areas
- internal policies, procedures, monitoring and reconciliation including a specific Fraud Governance Control Plan
- a strong internal culture and organisational values.

Internal and external audit

External audit is undertaken by the Auditor-General of South Australia and an Independent Audit Report is provided to the board. The report for this financial year can be found on page 80.

The following internal audit functions in 2013-14 were outsourced to Ernst & Young:

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

Board members

Jim Kouts – Appointed Chair in December 2013

Reappointed September 2013

Mr Kouts is the Group Manager Corporate Affairs for GDF SUEZ Australian Energy. He has broad commercial and governance experience across a range of industry and government sectors as a senior executive and strategist. He also is a Director of the Adelaide Convention Bureau and a Strategic Adviser to Adelaide Airport Limited. He was formerly a Director of the Electricity Supply Industry Planning Council and Deputy Chair of the Botanic Gardens of Adelaide.

Chris Ward – Appointed Deputy Chair in December 2013

Appointed June 2012

Mr Ward is a director and strategic consultant with extensive and broad experience in business. He is a Director of the South Australian Film Corporation (SAFC) and chairs the Risk and Audit Committee at SAFC. As well as being an Advisory Board Member to a private company, he is also an Executive Partner at UniSA. Until 2012, Mr Ward worked with BankSA as General Manager, Operations.

From left: Lindsay, Maria, Sue, Jim, Chris, Darryl, Roseanne

Lindsay Nicholson
Reappointed December 2013

Ms Nicholson is a lawyer who previously practiced in the areas of personal injury and family law. She is a former Board Member of the State Opera of South Australia and former Member of the Legal Practitioners Disciplinary Tribunal.

Sue Edwards
Reappointed December 2013

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

Maria Palumbo
Appointed April 2013

Ms Palumbo is Chief Executive Officer of Common Ground Adelaide Ltd., a not-for-profit affordable housing company, and also the Chair of the Community Housing Council of SA. She was formerly a Director with Housing SA, responsible for regulating and contract managing not-for-profit housing and homelessness services across the state. As an accountant by trade, she has broad experience in a range of industries, from government and non-government sectors to mining and manufacturing.

Darryl Royans
Appointed December 2013

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

Roseanne Healy
Appointed March 2014

Ms Healy is a corporate management specialist with senior management experience in both the public and private sectors. She holds qualifications in commerce, economics and business administration. Ms Healy has served on several boards and is a former Chief Executive of SA Great. Current directorships include GP Partners, Rural Industries Research and Development Corporation, Country South SA Medicare Local, CUFA Ltd and Frankston Regional Aquatic Centre Pty Ltd.

Claude Long
Appointed May 2002 – Retired December 2013
Chair from September 2005 to December 2013

Mr Long is a company director and business consultant with over 40 years experience in the banking industry. Mr Long was formerly a General Manager of the Commonwealth Bank of Australia and sits on a number of government and private company boards.

David Garrard
Appointed March 2008 to March 2014

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

Member	Board attendance	
	Eligible to attend#	Meetings attended
J Kouts (Chair)	11	10
C Ward (Deputy)	11	11
L Nicholson	10	9
S Edwards	11	10
M Palumbo	11	11
D Royans	5	5
R Healy	4	4
C Long	6	6
D Garrard	7	6

#Board did not meet in January 2014

Member	Audit Committee attendance	
	Eligible to attend	Meetings attended
J Kouts	*	1**
S Edwards (Chair)	6	6
L Nicholson	6	6
C Ward	-	-
M Palumbo	-	-
D Royans	-	-
R Healy	2	2
C Long	***	-
D Garrard	4	3

*From February 2014, J Kouts may attend as an alternate member on this committee.
**J Kouts attended as an observer.
***To December 2013, C Long may have attended as an alternative member on this committee.

Member	Asset & Liability Committee attendance	
	Eligible to attend	Meetings attended
J Kouts	*	-
C Ward (Chair)	11	11
L Nicholson	-	-
S Edwards	-	-
M Palumbo	11	10
D Royans	5	5
R Healey	-	-
C Long	**	-
D Garrard	**	-

*From February 2014, J Kouts may attend as an alternate member on this committee.
**To December 2013, C Long and to March 2014, D Garrard may have attended as an alternative member on this committee.

Statutory information

Work Health and Safety (WHS)

HomeStart places a high priority on providing and maintaining a secure working environment and safe systems of work for all employees. HomeStart aims to promote and continually improve the delivery of WHS by developing an enthusiastic safety culture of interdependence, complying with legislation, allocating appropriate resources and reducing risk through elimination wherever practicable.

HomeStart values include ethical business practices and the development of enthusiastic and motivated people in a safe workplace. This commitment is reflected in HomeStart's WHS system, the performance of which is monitored by our leaders and supervisors.

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

Sustainable commitment

Our WHS system currently captures key elements of legislative compliance, and integrates work, health and safety as a core business value to achieve improved performance outcomes. The WHS system has been reviewed to ensure processes are up-to-date and continue to meet legislative requirements. All policies, procedures and guidelines have also been reviewed and integrated into a WHS Manual with referencing to our Business Continuity Plan.

In addition to the above, links to other government departments provide HomeStart with access to:

- workers compensations claims management
- rehabilitation and return to work activities
- a hotline for leaders to ensure accidents and incidents are promptly reported, enabling rehabilitation and return-to-work support and early intervention initiatives
- online training opportunities.

Evidence to support HomeStart's commitment to WHS includes:

- continual promotion of, and access for all employees to, flexible work practices
- access to an annual Healthy Lifestyle Benefit
- focus on workplace goals and individual achievements including employee recognition programs to foster a culture of continuous learning
- cultural and engagement surveys
- regular WHS Committee meetings which provide a consultative forum that can effectively address work health and safety matters arising
- regular workplace inspections
- regular Consultative Committee meetings to promote idea sharing and engage employees in decision making relating to their conditions of employment
- continued Employee Assistance Program to provide confidential guidance and advice for non-work related and work related matters.

During 2013-14, the following work health and safety activities took place:

- training for board members to assist in the fulfilment of their duties under the *Work Health and Safety Act 2012*
- annual workstation ergonomic assessments
- first aid training for relevant employees
- quarterly WHS Committee meetings
- half-yearly workplace inspections
- review of WHS policies, procedures and guidelines
- free flu vaccinations for all employees
- Health and Wellbeing Week that included:
  - a pedometer challenge
  - Life. Be in it. activities
  - massages
  - table tennis competitions
- distribution of a regular health promotion newsletter
- Wellness Program that included:
  - Healthy Heart Checks
  - Address Your Stress workshop
  - regular fruit delivery.

Financial accountability

HomeStart received and managed two (non-notifiable) workers compensation claims this year.

Expenditure for WHS for the year amounted to approximately $23 000 which was used to achieve outcomes for safety improvement, including upgrades to the online employee training system, the purchase of ergonomic equipment and mechanical aids, electrical testing and tagging of equipment, workplace assessments, Health and Wellbeing Week activities, Wellness Program implementation and other WHS requirements that ensure our compliance with legislation and support our proactive approach to continuous improvement and injury prevention.

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

Integrated risk management

The WHS Committee provides and reports on near misses, incidents, accidents and hazards. Any issues arising are considered further to ensure appropriate processes are in place. Regular reporting identifies trends and assists in implementing appropriate corrective treatment plans.

In addition to the above, regular half-yearly workplace inspections continue to be developed and conducted, and any hazards are assessed accordingly and corrected as soon as possible.

The current WHS system requires leaders and employees to capture and apply risk management principles in order to respond to emerging trends or potential risks at the operational level.

Rigorous evaluation

Workplace inspections, incident reporting, preventative maintenance and corrective actions are regularly applied to improve WHS performance.

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

WHS statistics

Table 1: Agency gross workers compensation expenditure[1] and corrective action taken

Number of notifiable incidents pursuant to WHS Act Part 3	Nil
Number of notices served pursuant to WHS Act Section 90, Section 191 and Section 195 (provisional improvement, improvement and prohibition notices)	Nil

[1] before 3rd party recovery

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

Table 2: Agency gross workers compensation expenditure for 2013-14 compared with 2012-13[2]

Expenditure	2013-14	2012-13	Variation + (-)	% Change + (-)
Income maintenance	$0	$5 997.72	($5 997.72)	Undefined
Lump sum settlements redemptions – Sect. 42	$0	$0	$0	0.00%
Lump sum settlements permanent disability – Sect. 43	$0	$0	$0	0%
Medical/hospital costs combined	$1 751.00	$4 194.18	($2 443.18)	58.3%
Other	$0	$1 272.14	($1 272.14)	Undefined
Total claims expenditure	**$1 751.00**	**$11 464.04**	**($9 713.04)**	**84.7%**

[2] information available from the Self Insurance Management System (SIMS)

Table 3: Meeting safety performance targets[3]

	Base: 2009-10	Performance: 12 months to end of June 2014 *			Final target
	Numbers or %	Actual	Notional quarterly target**	Variation	Numbers or %
1. Workplace fatalities	0	0	0	0	0
2. New workplace injury claims	0	2	0	2	0
3. New workplace injury claims frequency rate	0.00%	12.65%	0.00%	12.65%	0.00%
4. Lost-time injury frequency rate ***	0.00%	0.00%	0.00%	0.00%	0.00%
5. New psychological injury claims frequency rate	0.00%	0.00%	0.00%	0.00%	0.00%
6. Rehabilitation and return to work:					
a. Early assessment within 2 days	0.00%	100.00%	80.00%	0.00%	80.00%
b. Early intervention within 5 days	0.00%	0.00%	0.00%	0.00%	90.00%
c. LTI have 10 business days or less lost time	0.00%	0.00%	0.00%	0.00%	60.00%
7. Claim determination:					
a. Claims not yet determined for provisional liability in 7 days	0.00%	50.00%	100.00%	50.00%	100.00%
b. Claims determined in 10 business days	0.00%	0.00%	75.00%	0.00%	75.00%
c. Claims still to be determined after 3 months	0.00%	100.00%	3.00%	97.00%	3.00%
8. Income maintenance payments for recent injuries:					
a. 2012-13 injuries (at 24 months development)	$0.00	$5 997.72	$0.00	$5 997.72	Below previous 2 years average
b. 2013-14 injuries (at 12 months development)	$0.00	$0.00	$0.00	$0.00	Below previous 2 years average

[3] information available from the Self Insurance Management System (SIMS) SIPS target report

*	Except for Target 8, which is year-to-date (YTD). For Targets 5, 6c, 7b and 7c, performance is measured up to the previous quarter to allow reporting lag.
**	Based on cumulative reduction from base at a constant quarterly figure.
***	Injury frequency rate for new lost-time injury/disease for each one million hours worked. This frequency rate is calculated for benchmarking and is used by the WorkCover Corporation. **Lost-time Injury frequency rate (new claims):** $\frac{\text{Number of new cases of lost-time injury/disease for year}}{\text{Number of hours worked in the year}} \times 1\,000\,000$

Freedom of Information Act 1991 – Information Statement

HomeStart Finance is a statutory corporation established by regulation under the *Housing and Urban Development (Administrative Arrangements) Act 1995* and currently operates under the *Housing and Urban Development (Administrative Arrangements) (HomeStart Finance) Regulations 2007* 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.

HomeStart works with three distribution channels: an Adelaide head office, four Loan Managers (BankSA, The Home Loan Centre, Homeloans Plus and Bernie Lewis), and a broker network of 11 partners. During 2013-14, The Home Loan Centre was purchased by Australian Associated Advisers Pty Ltd trading as KeyInvest Lending Services, who will continue to trade under the name and manage the portfolio. HomeStart also provides other finance programs to support community housing and aged care accommodation.

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 Annual Report
- HomeStart customer newsletters.

Copies of the above documents can be accessed from homestart.com.au or by contacting the Freedom of Information Officer on (08) 8203 4000. Copies of HomeStart's Information Statement can be obtained by contacting the Freedom of Information Officer during normal business hours.

Access to personal information

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

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

Whistleblowers Protection Act 1993

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

Contractual arrangements

(Contracts which exceed $4 million (GST inclusive) and extend beyond a single year)

Sandstone Technology Pty Ltd
Design, develop and implement a new Front End Loan System for processing loan applications.

Overseas travel

No HomeStart employees made an overseas trip during 2013-14 for work related purposes.

Consultancy expenditure 2013-14

	Purpose of consultancy	Number	Cost
Total consultancies below $10 000		**3**	**$13 857**
Total consultancies $10 000 – $50 000		**3**	**$79 403**
Paul Preiss & Associates	Values project		
Mercer Consulting Pty Ltd	Human resource evaluations and advice		
Thrive Plus	Distribution model review project		
Total consultancies above $50 000		**0**	**$0**
Total consultancies		**6**	**$93 260**

FINANCIALS

Sustainable financial management

In 2013-14 HomeStart achieved the financial operating parameters agreed with the state government. Achievements included an operating profit before tax of $17.0 million ($16.4 million, 2012-13) against a budget of $15.7 million, representing a Return on Equity of 10.21% against a target of 9%.

Payments to government amounted to $41.3 million this year and have totalled $416.2 million since HomeStart's inception. Under these agreed financial parameters, HomeStart received a Community Service Obligation reimbursement of $5.6 million in 2013-14 ($5.4 million, 2012-13) in recognition of the cost of providing our non-commercial activities. These outcomes reflect HomeStart's continued focus on achieving strategic objectives and prudent financial, risk and asset management policies balanced with our social obligations for customers and stakeholders.

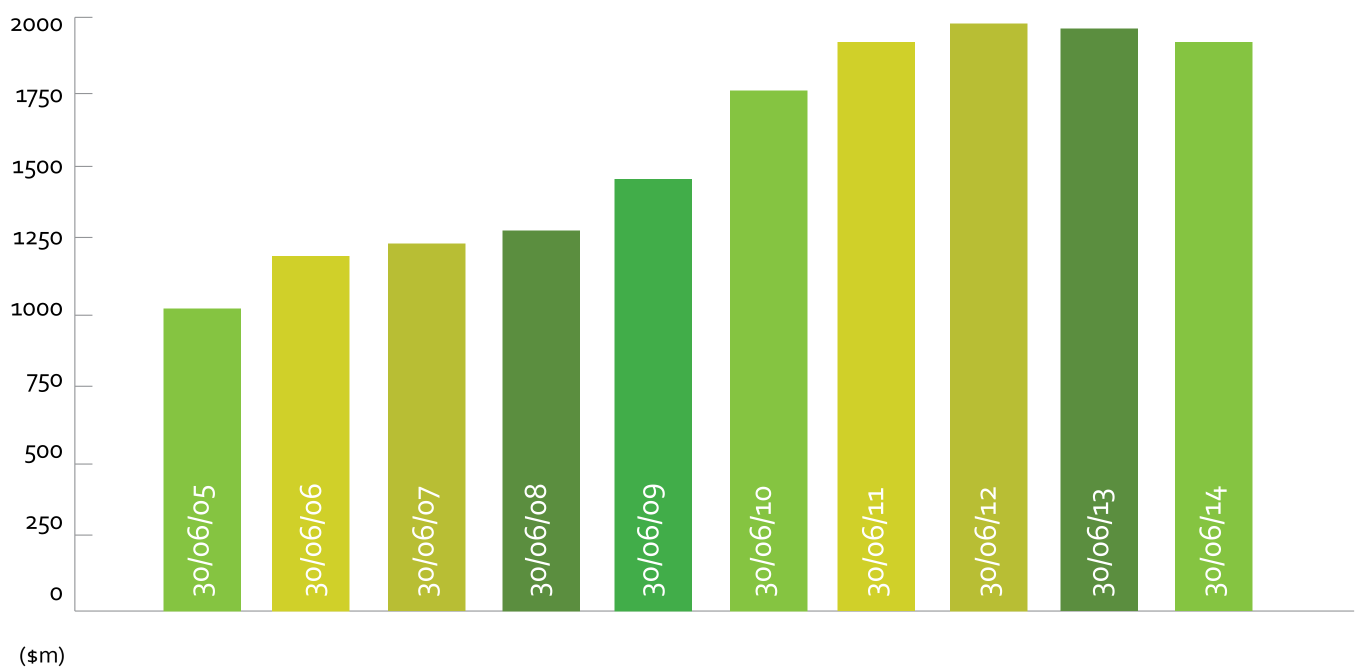
HomeStart's debt funding from the South Australian Government Financing Authority (SAFA) was $1737 million against a borrowing limit of $2105 million. In the interest of prudent financial management, HomeStart has set minimum capital levels. Our capital adequacy ratio was 15.0% (14.1%, 2012-13) against a target of 12%. Under the agreed operating parameters, HomeStart will maintain a minimum 12% capital adequacy ratio, with additional capital to be contributed by government to maintain this ratio, where necessary.

Asset and liability management

2013-14 saw a decline in the lending portfolio to $1906 million ($1960 million, 2012-13) due to lending volumes being lower than expected, reflecting the subdued real estate market and continuing affordability challenges for the average home buyer. Also contributing to this portfolio result were discharges, which ended the year just under budget. Loan repayments were also very strong. The current low interest rate environment has enabled many borrowers to make additional payments and most borrowers are in advance of the scheduled balance on their loans.

Despite a challenging economic environment and a housing market impacted by uncertainty and a lack of consumer confidence, HomeStart has maintained its commitment to the ongoing availability of some higher risk products in response to market needs while at the same time adopting a prudent approach to credit quality and provisioning by utilising credit risk management systems to inform lending decisions, and to allocate and monitor appropriate benchmarks for portions of the lending portfolio.

Lending portfolio - value of loans outstanding



Funding

HomeStart's lending is financed by its capital base and borrowings from the South Australian Government Financing Authority (SAFA). A global approach to treasury risk management has been adopted whereby risks are amalgamated from all activities and managed on a consolidated basis, taking advantage of offsetting risks.

A Treasury Master Document outlines all treasury policies, processes and procedures, and the limitations within which our treasury department must operate. The document also governs the structure and approach to the management of our debt portfolio.

The Asset and Liability Committee oversees the management of asset price setting and policy, and is ultimately responsible for the treasury operations of HomeStart. The Finance Sub-Committee, a sub-committee of the Asset and Liability Committee, is responsible for developing and implementing funding strategies as well as reviewing and monitoring interest rate exposures.

Risk Transfer Vehicle (RTV)

In July 2000, the HomeStart Board established a Risk Transfer Vehicle (RTV) to minimise and quarantine credit risks. It is a division of HomeStart managed by the Asset and Liability Committee. A Loan Provision Charge is collected from loans settled as a partial contribution toward write-offs, which is invested in various asset classes in line with the RTV asset allocation strategy.

This year, the RTV returned 4.13% with a total return of 4.25% since inception. Initially funded with $20 million, the RTV net assets now total $48.7 million ($51.6 million, 2012-13). The decline in this balance reflects the process by which RTV funding is repatriated to HomeStart's accounts as compensation for loan losses incurred.

HomeStart engages Mercer Investments, in an advisory capacity, to regularly review the RTV investment strategy to ensure it is appropriately matched to HomeStart's overarching investment and business objectives. Actuaries are also engaged to undertake an annual review of projected future loan loss levels.

Provisioning

HomeStart has recognised specific and collective provisions of $20.5 million ($20.1 million in 2012-13) against its loan portfolio. These provisions have been calculated in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS), which stipulate that impairment losses should be recognised only if there is objective evidence of impairment as a result of one or more loss events that occurred after the loan was initially settled.

HomeStart also maintains a general reserve for credit losses of $7.8 million ($8.8 million, 2012-13). The maintenance of this reserve is consistent with the Australian Prudential Regulation Authority (APRA) prudential risk management requirements of retaining sufficient retained earnings for capital adequacy purposes.

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

Financial indicators	2008	2009	2010	2011	2012	2013	2014
Operating profit ($m)	6.8	10.2	16.8	15.5	14.4	16.4	17.0
Return on Equity	8.43%	6.95%	11.41%	9.92%	9.22%	10.26%	10.21%
Net interest margin	0.73%	1.20%	0.94%	0.67%	0.84%	1.16%	1.09%
Balance sheet strength							
Capital ($m)	153.4	138.9	157.9	155.1	154.5	164.2	169.3
Provisions ($m)	11.8	14.0	15.4	18.1	19.2	20.1	20.5
Loan assets ($m)	1257.9	1432.8	1725.5	1903.2	1956.3	1943.8	1889.6
RTV net assets ($m)	41.9	39.3	42.6	46.3	48.6	51.6	48.7
Net loan losses ($m)	0.01	0.07	0.04	0.13	0.54	0.84	0.90

Financial contributions to the state government

$416.2 million paid to the state government since inception.

Payment type ($m)	1995[1] - 2008	2009	2010	2011	2012	2013	2014	Total
Guarantee fee	89.6	7.6	10.7	23.8	26.9	27.1	28.0	213.7
SAFA[2] admin fee	6.7	1.0	1.1	1.1	1.1	1.1	1.1	13.2
Income tax	36.2	3.3	3.4	4.7	5.2	4.4	5.0	62.2
Dividends	41.9	5.3	5.6	7.3	6.2	6.3	7.2	79.8
Capital repatriation	47.3	0.0	0.0	0.0	0.0	0.0	0.0	47.3
Total paid	**221.7**	**17.2**	**20.8**	**36.9**	**39.4**	**38.9**	**41.3**	**416.2**

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

Account payment performance

Particulars	Number of accounts paid	Percentage of accounts paid (by number)	Value of accounts paid	Percentage of accounts paid (by value)
Paid by the due date	2517	99.53%	$7 898 390	98.34%
Paid late within 30 days of due date	12	0.47%	$133 317	1.66%
Paid more than 30 days from due date	0	0.00%	$0	0.00%

Certification of the Financial Statements

For the year ended 30 June 2014

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

- comply with relevant Treasurer's instructions issued under section 41 of the *Public Finance and Audit Act 1987*, and relevant Australian accounting standards;
- are in accordance with the accounts and records of HomeStart Finance; and
- present a true and fair view of the financial position of HomeStart Finance as at 30 June 2014 and the results of its operations and cash flows for the financial year.

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

Signed in accordance with a resolution of the board members.

Jim Kouts
Chair
16 September 2014

Chris Ward
Deputy Chair
16 September 2014

John Oliver
Chief Executive Officer
16 September 2014

Ian Wheaton
General Manager, Treasury, Finance & Risk
16 September 2014

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2014

	Note no.	2014 $'000	2013 $'000
Interest income	5	112 663	125 409
Interest expense	5	(54 164)	(65 670)
Net interest income	**5**	**58 499**	**59 739**
Other income	6	15 303	13 083
Net gain from disposal of assets	7	-	1
Bad and impaired loans expense	8	(4 200)	(4 095)
Loan manager fees		(6 210)	(6 659)
Employee expenses	10	(10 910)	(10 892)
Depreciation and amortisation expense	14	(917)	(558)
Other expenses	15	(6 424)	(7 166)
Profit before income tax equivalents and guarantee fee expenses		45 141	43 453
Government guarantee fee	9	(28 109)	(27 100)
Profit before income tax equivalents		**17 032**	**16 353**
Income tax equivalents expense	2.5	(5 109)	(4 906)
Profit after income tax equivalents		**11 923**	**11 447**
Items that may be reclassified to profit if specific conditions are met:			
Change in fair value of derivatives		350	4 308
Change in fair value of available-for-sale assets	19.4	(2)	803
Total comprehensive result		**12 271**	**16 558**

The total comprehensive result is attributable to the SA Government as owner.
The above Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the accompanying notes.

Statement of Financial Position

For the year ended 30 June 2014

	Note no.	2014 $'000	2013 $'000
Assets			
Cash and cash equivalents	37.1	3 320	4 373
Financial investments designated at fair value through profit or loss	17	108 012	108 299
Financial investments – available-for-sale	19	11 971	13 958
Loans and advances	20	1 798 177	1 853 133
Other financial assets	21	769	1 136
Property, plant and equipment	22	836	1 222
Intangible assets	23	4 458	3 572
Other assets	24	416	303
Total assets		**1 927 959**	**1 985 996**
Liabilities			
Payables	26	6 322	6 984
Derivative financial instruments	33.2.2	5 929	6 267
Short-term borrowings	27	635 134	587 560
Employee benefits	28	2 357	2 151
Income tax equivalents payable	29	2 751	2 659
Provision for dividend	30	554	576
Other liabilities	31	3 591	3 594
Long-term borrowings	27	1 102 000	1 212 000
Total liabilities		**1 758 638**	**1 821 791**
Net assets		**169 321**	**164 205**
Equity			
Reserves	32	2 671	3 300
Retained earnings	32	166 650	160 905
Total equity		**169 321**	**164 205**

Total equity is attributable to the SA Government as owner.

Unrecognised contractual arrangements	35		
Contingent liabilities	36		

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

Statement of Changes in Equity

For the year ended 30 June 2014

	Note no.	Retained earnings $'000	General reserve for credit losses $'000	Derivatives valuation reserve $'000	Available-for-sale revaluation reserve $'000	Total $'000
Balance at 30 June 2012		**155 944**	**9 158**	**(10 587)**	**-**	**154 515**
Profit after income tax equivalents expense for 2012-13		11 447	-	-	-	11 447
Derivative gain recognised directly in equity	2.13 33.4.2	-	-	4 308	-	4 308
Available-for-sale gain recognised directly in equity		-	-	-	803	803
Total comprehensive result for 2012-13		**11 447**	**-**	**4 308**	**803**	**16 558**
Transfer to/from credit loss reserve	32	382	(382)	-	-	-
Dividends paid/payable	30	(6 868)	-	-	-	(6 868)
Balance at 30 June 2013		**160 905**	**8 776**	**(6 279)**	**803**	**164 205**
Profit after income tax equivalents expense for 2013-14		11 923	-	-	-	11 923
Derivative gain recognised directly in equity	2.13 33.4.2	-	-	350	-	350
Available-for-sale gain recognised directly in equity		-	-	-	(2)	(2)
Total comprehensive result for 2013-14		**11 923**	**-**	**350**	**(2)**	**12 271**
Transfer to/from credit loss reserve	32	977	(977)	-	-	-
Dividends paid/payable	30	(7 155)	-	-	-	(7 155)
Balance at 30 June 2014		**166 650**	**7 799**	**(5 929)**	**801**	**169 321**

Total equity is attributable to the SA Government as owner.

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

Statement of Cash Flows
For the year ended 30 June 2014

	Note no.	2014 $'000	2013 $'000
Cash flows from operating activities			
Cash inflows			
Interest received on:			
Cash		71	53
Investments		1 786	1 605
Loans and advances		107 408	120 257
Fees and commissions received		2 646	621
Bad debts recovered		298	173
EquityStart grant received		785	743
Community Service Obligation subsidy received		5 614	5 400
Other		474	901
Total cash inflows from operating activities		**119 082**	**129 753**
Cash outflows			
Payments to employees		(10 704)	(10 639)
Payments to suppliers		(6 214)	(5 739)
Payments to loan managers		(6 000)	(6 292)
Borrowing costs paid		(55 012)	(66 130)
Government guarantee fee paid		(28 042)	(27 121)
Income tax equivalents paid		(5 017)	(4 421)
Total cash outflows from operating activities		**(110 989)**	**(120 342)**
Net cash provided by operating activities	37.2	**8 093**	**9 411**

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

Statement of Cash Flows

For the year ended 30 June 2014

	Note no.	2014 $'000	2013 $'000
Cash flows from investing activities			
Cash inflows			
Proceeds from sale of office and computer equipment	7	-	1
Proceeds from maturity of available-for-sale investments		4 000	986
Proceeds from investments designated at fair value through profit or loss		51 772	29 383
Shared appreciation components of Breakthrough Loan repaid	34.4	7 943	6 582
Customer loans repaid		342 157	280 264
Total cash inflows from investing activities		**405 872**	**317 216**
Cash outflows			
Payments for property, plant and equipment		(104)	(316)
Payments for software		(1 313)	(2 097)
Payments for available-for-sale investments		(2 078)	(2 112)
Payments for investments designated at fair value through profit or loss		(50 400)	(30 085)
Shared appreciation component of Breakthrough Loan settled	34.4	(5 962)	(8 349)
Customer loans settled		(285 558)	(262 943)
Total cash outflows from investing activities		**(345 415)**	**(305 902)**
Net cash provided by investing activities		**60 457**	**11 314**
Cash flows from financing activities			
Cash inflows			
Proceeds from borrowings		641 557	1 272 407
Total cash inflows from financing activities		**641 557**	**1 272 407**
Cash outflows			
Dividend paid		(7 177)	(6 329)
Repayment of borrowings		(703 983)	(1 285 211)
Total cash outflows from financing activities		**(711 160)**	**(1 291 540)**
Net cash used in financing activities		**(69 603)**	**(19 133)**
Net (decrease)/increase in cash and cash equivalents		**(1 053)**	**1 592**
Cash and cash equivalents at the beginning of the financial year		4 373	2 781
Cash and cash equivalents at the end of the financial year	37.1	**3 320**	**4 373**

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

Notes to and forming part of the Financial Statements

For the year ended 30 June 2014

Note 1
Objectives of HomeStart Finance

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

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

HomeStart Home Loan

HomeStart provides home loans to low to moderate income households and other needs groups. The HomeStart Home Loan is the principal loan product. The outstanding value of HomeStart Home Loans at 30 June 2014 was $1748.7 million ($1805.7 million, 2012-13).

Subsidies

HomeStart provides subsidised Advantage Loans of up to $45 000 to lower income earners. For loans issued after 3 February 2014, the loan is interest bearing from the drawdown date, prior to that date the maximum loan was $30 615 and the loan was interest free if repaid within five years. The Advantage Loan interest is calculated by reference to the Consumer Price Index (CPI). As at 30 June 2014 the interest rate applying to Advantage Loans was 3.88% (3.18%, 2012-13). The outstanding value of Advantage Loans at 30 June 2014 was $46.9 million ($45.2 million, 2012-13).

For the year ended 30 June 2014 HomeStart received a Community Service Obligation (CSO) subsidy payment of $2.7 million ($2.5 million, 2012-13) from the Department of Treasury and Finance for the Advantage Loan subsidy provided.

HomeStart also provides subsidised EquityStart Loans of up to $50 000 to current Housing SA tenants. The EquityStart Loan incurs interest at a subsidised rate, which is linked to the CPI. Regular repayments on the EquityStart Loan are optional, and payment can be deferred and paid at the end of the loan period. The outstanding value of EquityStart Loans at 30 June 2014 was $37.9 million ($38.8 million, 2012-13).

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

Funding

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

Note 2
Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

The financial statements have been prepared based on a 12 month period and presented in Australian currency.

2.1.1 Statement of compliance

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

2.2 Estimates and assumptions

The preparation of financial statements in conformity with Australian Accounting Standards requires HomeStart to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2.3 Comparative figures

The presentation and classification of items in the financial statements are consistent with prior periods except where a specific Accounting Policy Statement or an Australian Accounting Standard has required a change. Where permitted by a specific Accounting Policy Statement or Australian Accounting Standard, comparative information has been reclassified and disclosed where required.

Where it has been impractical to reclassify comparative amounts, the reason for not reclassifying the amount and the nature of the adjustment has been disclosed.

2.4 Rounding

All amounts in the financial statements have been rounded to the nearest thousand dollars ($'000).

2.5 Taxation

In accordance with Treasurer's Instructions issued under the *Public Finance and Audit Act 1987*, HomeStart is required to pay to the SA Government an income tax equivalent. The income tax equivalents liability is based on the Treasurer's accounting profit method, which requires that the corporate income tax rate of 30% (30%, 2012-13) be applied to profit from continuing operations before income tax equivalents.

HomeStart is liable for payroll tax, fringe benefits tax and goods and services tax (GST).

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

- the amount of GST incurred by HomeStart as a purchaser is not recoverable from the Australian Taxation Office (ATO)
- receivables and payables are stated with the amount of GST included.

HomeStart, being a provider of financial services, is classified as an input taxed entity for GST purposes and consequently absorbs GST costs passed on by suppliers. Reduced input tax credits can only be claimed on a very limited number of input costs.

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

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

2.6 Income

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

2.6.1 Interest income – non-subsidised loans

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

2.6.2 Interest income – subsidised loans

Where HomeStart provides subsidised loans, such as Advantage Loans and EquityStart Loans, at rates lower than market interest rates, the initial recognition of these loans at fair value will result in an initial loss being generated in the Statement of Profit or Loss and Other Comprehensive Income, being the difference between the amount disbursed and the fair value. Fair value is measured by discounting the expected cash flows using a market interest rate.

Interest income on these subsidised loans is brought to account using the effective interest method at a risk-free rate of interest, based on four year (for Advantage Loans) and ten year (for EquityStart Loans) South Australian Government Financing Authority (SAFA) Bonds.

2.6.3 Interest income – both non-subsidised and subsidised impaired loans

Interest income on impaired loans is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loans are assessed as impaired where they are contractually more than 90 days overdue with security insufficient to cover principal and arrears of interest, or where there is doubt as to the full recovery of principal and interest.

An impaired item may be restored to accrual status only if all arrears have been eliminated by payments from the customer, and HomeStart judges that the customer is capable of servicing their future obligations under the facility, or when it otherwise becomes well secured.

2.6.4 Loan origination fees received or receivable

Income directly attributable to the origination of loans is deferred and recognised in the Statement of Profit or Loss and Other Comprehensive Income as part of the effective interest rate calculation. This method results in origination income being recognised over the five year average life of loans in the portfolio.

The average life and interest recognition pattern of loans in the originated loan portfolio is reviewed periodically to ensure the amortisation methodology is appropriate.

2.6.5 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.

The Department of Treasury and Finance (DTF) makes a CSO subsidy payment to HomeStart as compensation for the provision of Advantage Loan and credit quality subsidies as well as administering the Nunga Loan program. In addition, on 30 April 2012 Cabinet approved that DTF would make an additional CSO payment to HomeStart each financial year to enable HomeStart to meet its target pre-tax Return on Equity (ROE) of 9% (if required). The first such payment was received by HomeStart in the financial year ended 30 June 2012, no payment was received for the financial years ending 30 June 2013 and 2014.

HomeStart also receives grant funds from the Department for Communities and Social Inclusion to compensate for costs incurred in relation to EquityStart Loans.

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

2.6.6 Investment income

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

Distribution income is recognised when received.

For financial investments classified as available-for-sale, interest income is recognised as it accrues.

2.6.7 Disposal of non-financial assets

Income from disposal of non-financial assets is recognised when control of the asset has passed to the buyer and has been determined by comparing proceeds with carrying amount. The gains or losses arising from disposal of non-financial assets are recognised on a net basis as income or an expense.

2.6.8 Other income

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

2.7 Expenses

Expenses are recognised in HomeStart's Statement of Profit or Loss and Other Comprehensive Income when and only when it is probable that the flow of economic benefits from the entity will occur and can be reliably measured.

2.7.1 Interest expense

Interest payable is expensed in accordance with the accounting policy described at note 2.14.

2.7.2 Government guarantee fee

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

2.7.3 Bad and impaired loans expense

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

2.7.4 Loan origination fees paid or payable

Fees directly attributable to the origination of loans are deferred and recognised in the Statement of Profit or Loss and Other Comprehensive Income as part of the effective interest rate calculation. This method results in origination fees being expensed over the five year average life of loans in the portfolio.

The average life and interest recognition pattern of loans in the originated loan portfolio is reviewed periodically to ensure the amortisation methodology is appropriate.

2.7.5 Employee expenses

Employee expenses are recognised in accordance with the accounting policy described at note 2.17.

2.7.6 Depreciation and amortisation expense

Depreciation and amortisation expense is recognised in accordance with the accounting policy described at note 2.15.4.

2.7.7 Operating lease expense

Operating lease payments are charged to the Statement of Profit or Loss and Other Comprehensive Income on a basis which is representative of the pattern of benefits derived from the leased assets.

The aggregate benefit of lease incentives received by HomeStart in respect of operating leases has been recorded as a reduction of rental expense over the lease term, on a straight line basis.

2.7.8 Tax equivalents expense

The tax equivalents expense is recognised in accordance with the accounting policy described at note 2.5.

2.8 Assets and liabilities

Assets and liabilities are classified in the Statement of Financial Position by their nature and in an order that reflects their relative liquidity. Current and non-current classes are not generally presented separately.

2.9 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and deposits at call that are readily converted to cash and are used in the cash management function on a day-to-day basis. Cash is measured at its nominal value.

2.10 Financial instruments

During the current and comparative financial years HomeStart had the following types of financial instruments:

- cash and cash equivalents (refer to accounting policy note 2.9)
- loans and advances (refer to accounting policy note 2.11)
- investments – managed funds, bonds, term deposits and the shared appreciation component of Breakthrough Loans (refer to accounting policy note 2.12)
- derivative financial instruments (refer to accounting policy note 2.13)
- financial liabilities (refer to accounting policy note 2.14).

Under AASB 139, financial instruments are required to be classified into one of five categories which will, in turn, determine the accounting treatment of the financial instrument. The classifications are:

- loans and receivables – initially measured at fair value and then at amortised cost using the effective interest rate method
- held-to-maturity financial assets – measured at amortised cost
- financial instruments designated at fair value through profit or loss – measured at fair value
- available-for-sale financial assets – measured at fair value
- financial liabilities (not at fair value through profit or loss) – measured at amortised cost.

The classification depends on the purpose for which the financial instruments were acquired.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that HomeStart has the positive intention and ability to hold to maturity.

As at 30 June 2014 and 30 June 2013 HomeStart did not hold any held-to-maturity investments.

Financial assets at fair value through profit or loss

HomeStart's policy is to designate a financial asset at fair value through profit or loss if it is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investments strategy, and information about the financial asset is provided internally on that basis to HomeStart's key management personnel.

HomeStart has designated the shared appreciation component of the Breakthrough Loan as well as its investments in managed funds and term deposits as financial assets at fair value through profit or loss.

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

As at 30 June 2014 HomeStart classified its investments in bonds issued by state governments and non-government institutions as available-for-sale.

Financial liabilities

HomeStart's short-term and long-term borrowings are financial liabilities.

Impairment

HomeStart assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

Impairment of financial assets carried at amortised cost

The recoverable amount of HomeStart's investments in loans and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets).

The carrying amount of assets carried at amortised cost is reduced to the recoverable amount through the use of a provision account. The amount of the loss is recognised in the Statement of Profit or Loss and Other Comprehensive Income. An impairment loss in respect of loans and receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Reference should be made to accounting policy note 2.11 for additional information in relation to the assessment of impairment of loans and receivables.

Impairment of available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised in the available-for-sale revaluation reserve, and there is objective evidence that the asset is impaired, the cumulative loss that has been recognised in the available-for-sale revaluation reserve is reclassified to profit or loss.

The amount of the cumulative loss that is reclassified is the difference between the acquisition cost (net of any amortisation) and current fair value, less any impairment loss previously recognised in profit or loss.

2.11 Loans and advances

Loans measured at amortised cost

Loans and advances are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest rate method and taking account of principal repayments and impairment losses.

For subsidised loans, fair value is less than their face value. On settlement of subsidised loans an initial loss is recognised as an expense, being the difference between the face and fair values, which is then recognised as income over the expected life of the loan, using the effective interest rate method.

Effective interest rate

The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the loan or advance to the net carrying amount of the loan or advance. When estimating the future cash flows, HomeStart considers all contractual terms of the loan or advance excluding any future credit losses. Included in this calculation are all fees paid or received that are integral to the contract.

Provision for impairment

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

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

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

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

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

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

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

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

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

In addition, a general reserve for credit losses is maintained to cover risks inherent in the loan portfolios. The maintenance of this reserve is consistent with the Australian Prudential Regulation Authority (APRA) prudential risk management requirements of retaining sufficient retained earnings for capital adequacy purposes. Movements in the general reserve for credit losses are recognised as a transfer of retained earnings.

Bad debts

All bad debts are written-off in the period in which they are classified as not recoverable. If a provision for impairment has been recognised in relation to a loan, write-offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as expenses in the Statement of Profit or Loss and Other Comprehensive Income.

2.12 Investments

Held-to-maturity investments

As at 30 June 2014 HomeStart did not classify any investments as held-to-maturity (nil, 2012-13).

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity where HomeStart has the positive intention and ability to hold to maturity. HomeStart does not classify any financial assets as held-to-maturity if the entity has, during the current annual reporting period or during the two preceding annual reporting periods, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity.

Investments that are intended to be held-to-maturity are stated at amortised cost using the effective interest rate method less impairment losses.

Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity.

For investments carried at amortised cost, gains and losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income when the investments are derecognised or impaired.

Investments at fair value through profit or loss

HomeStart has designated the shared appreciation component of the Breakthrough Loan as well as its investments in managed funds and term deposits as financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss are carried at fair value. Gains or losses arising from changes in fair value are presented in the Statement of Profit or Loss and Other Comprehensive Income in the period in which they arise.

Shared appreciation component of the Breakthrough Loan

The Breakthrough Loan facility includes two loan components:

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

The shared appreciation component is measured at fair value through profit or loss. The fair value of this loan component is based on independent valuations of the properties pledged as collateral. Gains or losses arising from changes in fair value are presented in the Statement of Profit or Loss and Other Comprehensive Income in the period in which they arise.

Available-for-sale investments

As at 30 June 2014 HomeStart classified its investments in bonds with a fair value of $12.0 million as available-for-sale ($14.0 million, 2012-13).

When purchased, available-for-sale investments are initially recognised at fair value plus transaction costs. Subsequent gains or losses arising from changes in fair value are included as a separate component of equity in the available-for-sale revaluation reserve except for interest, which is recognised directly in the Statement of Profit or Loss and Other Comprehensive Income. When the investment is sold, the cumulative gain or loss relating to the investment is transferred from the available-for-sale revaluation reserve to the Statement of Profit or Loss and Other Comprehensive Income.

Where there is objective evidence of impairment of an available-for-sale investment, the cumulative loss relating to that asset is removed from equity and recognised in the Statement of Profit or Loss and Other Comprehensive Income. If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment event, the loss is reversed through the Statement of Profit or Loss and Other Comprehensive Income.

2.13 Derivative financial instruments

HomeStart is exposed to changes in interest rates arising from financing activities and it uses derivatives to hedge this risk. Derivative financial instruments are not held for speculative purposes.

HomeStart does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are initially recognised at cost and, subsequent to initial recognition, are measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

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

HomeStart designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge), or hedges of highly probable forecast transactions (cash flow hedges). For the current reporting and comparative periods HomeStart has only cash flow hedges.

HomeStart documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. HomeStart also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been, and will continue to be, highly effective in offsetting changes in fair values or cash flows of hedged items. The fair values of various derivative financial instruments used for hedging purposes are disclosed at note 33.2.2. Movements in the derivatives valuation are shown in the Statement of Changes in Equity.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised directly in equity in the derivatives valuation reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Statement of Profit or Loss and Other Comprehensive Income.

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 is reversed through the Statement of Profit or Loss and Other Comprehensive Income with all subsequent gains or losses recognised through the Statement of Profit or Loss and Other Comprehensive Income.

2.14 Interest-bearing borrowings

Interest-bearing borrowings are initially recognised at fair value, net of transaction costs incurred. Interest-bearing borrowings are subsequently stated at amortised cost with any difference between the interest-bearing cost and the redemption value being recognised in the Statement of Profit or Loss and Other Comprehensive Income over the period of the borrowings on the effective interest rate basis.

2.15 Non-financial assets

2.15.1 Property, plant and equipment

Assets are recorded at cost or at the value of any liabilities assumed, plus any incidental cost involved with the acquisition, less accumulated depreciation (refer to note 2.15.4) and impairment losses. Where assets are acquired at no value, or minimal value, they are recorded at their fair value in the Statement of Financial Position. If, however, the assets are acquired at no or nominal value as part of a restructuring of administrative arrangements, then the assets are recorded at the value recorded by the transferor prior to transfer.

At the expiration of the lease of its office accommodation, HomeStart is required 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 leasehold improvements. This amount has been calculated as an estimate of future costs and discounted to a present value.

HomeStart capitalises all non-current tangible assets with a value of $1000 or greater.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

2.15.2 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible assets are recorded at cost less accumulated amortisation (refer to note 2.15.4).

The acquisition or internal development of software is capitalised when the expenditure meets the definition and recognition criteria of an intangible asset outlined in AASB 138 *Intangible Assets*, and when the amount of expenditure is greater than or equal to $1000.

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 four and ten 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.

2.15.3 Impairment and revaluation

In accordance with the Accounting Policy Framework III Asset Accounting Framework:

- all tangible assets are valued at written down current cost; and
- revaluation of non-current assets or group of assets is only performed when its fair value at the time of acquisition is greater than $1 million and estimated useful life is greater than three years.

If at any time HomeStart considers that the carrying amount of an asset materially differs from its fair value, then the asset will be revalued regardless of when the last valuation took place.

All tangible and intangible assets are tested for indication of impairment at each reporting date. Where there is an indication of impairment, the recoverable amount is estimated.

An impairment loss is recognised whenever the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Reversals of impairment

Impairment losses are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.15.4 Depreciation and amortisation of non-financial assets

All non-financial assets, having a limited useful life, are systematically depreciated or amortised over their useful lives in a manner that reflects the consumption of their service potential. Amortisation is used in relation to intangible assets such as software, while depreciation is applied to physical assets such as office and computer equipment.

The useful lives of all major assets held by HomeStart are reassessed on an annual basis.

The value of leasehold improvements is depreciated over the estimated useful life of each improvement.

Depreciation and amortisation of non-current assets for current and comparative periods is determined as follows:

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

2.15.5 Fair value measurement

AASB 13 defines fair value as the exit 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 the following 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 - traded in active markets and is based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at measurement date
- Level 2 - not traded in an active market and are derived from inputs (inputs other than quoted prices included within Level 1) that are observable for the asset, either directly or indirectly
- Level 3 - not traded in an active market and are derived from unobservable inputs.

The valuation processes and fair value changes are reviewed by the General Manager, Treasury, Finance & Risk and Audit Committee at each reporting date.

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 million, or had an estimated useful life that was less than three years, are deemed to approximate fair value.

Refer to note 25 for disclosure regarding fair value measurement techniques and inputs used to develop fair value measurements for non-financial assets.

Financial assets/liabilities

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. These techniques maximise the use of observable market data where it is available. HomeStart uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date.

2.16 Payables

Payables include creditors, accrued expenses, employment on-costs, interest, guarantee fee and loan manager fees.

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

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

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

All payables are measured at their nominal amount and are normally settled within 30 days from the date the invoice is first received (in accordance with Treasurer's Instruction 11 *Payment of Creditors' Accounts)*.

2.17 Employee benefits

2.17.1 Long-term service benefits

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.

The estimated liability for long service leave is based on actuarial assumptions over expected future salary and wage levels, experience of employee departures and periods of service. These assumptions are based on employee data over state government entities. Expected future payments are discounted using market yields at the end of the reporting period on government bonds with a duration that match, as closely as possible, the estimated future cash outflows.

2.17.2 Wages, salaries, annual leave and sick leave

Liabilities for employee benefits for salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date and represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration salary rates that HomeStart expects to pay as at reporting date.

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

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

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

2.18 Insurance

HomeStart has arranged, through SAFA, SAICORP division, to insure all major risks of HomeStart. The excess payable under this arrangement varies depending on each class of insurance held.

2.19 Accounting judgements, estimates and assumptions

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

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The areas involving a higher degree of estimate and judgement that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual financial reporting period are outlined below:

Area of estimate and judgement	Note no.
Investments at fair value through profit or loss (excluding the shared appreciation component of Breakthrough Loans)	2.12, 34.2, 34.3
Investments at fair value through profit or loss – shared appreciation component of the Breakthrough Loan	2.12, 34.2, 34.3
Investments – available-for-sale	2.12, 34.2, 34.3
Fair value of subsidised loans and advances	2.6.2
Loan origination fees received or receivable	2.6.4
Loan origination fees paid or payable	2.7.4
Provision for impairment of loans and advances	2.11
Unearned income (EquityStart grant)	2.6.5, 31.2
General reserve for credit losses	2.11, 32
Derivative financial instruments	2.13, 34.2

Note 3
New and revised accounting standards

HomeStart has assessed the impact of the new and amended standards and interpretations and considers there will be no impact on the accounting policies or the financial statements of the authority, except as outlined below:

1. In accordance with the new AASB 13 *Fair Value Measurement*, which became effective for the first time in 2013-14, HomeStart has:
    - reviewed its fair value techniques (both internal estimates and independent valuation appraisal) for non-financial assets to ensure they are consistent with the standard. Previously, HomeStart has used the cost approach or the market approach to determine fair value. Homestart will continue to measure its non-financial assets using either the cost or market approach. The application of AASB 13 has not had a material impact on the fair value measurements.
    - included additional disclosures where required to assist users in assessing the valuation techniques and inputs used to ascertain fair value measurements used for asset and liability measurements.
    - provided information on fair value hierarchy and other information at notes 2.15.5 and 25.
2. In accordance with the new AASB 10 *Consolidated Financial Statements* and AASB 11 *Joint Arrangements* which became effective for the first time in 2013-14, HomeStart has:
    - reviewed its control assessments in accordance with AASB 10 and its classification assessments in accordance with AASB 11 and has concluded that there is no impact. HomeStart does not control (as subsidiaries or otherwise) any investees and does not have any joint arrangements within the scope of AASB 11. Therefore HomeStart concluded that there is no impact from AASB 12.

Issued or amended but not yet effective

Australian Accounting Standards and interpretations that have recently been issued or amended but are not yet effective, have not been adopted by HomeStart for the period ending 30 June 2014.

HomeStart did not voluntarily change any of its accounting policies during 2013-14.

Reference	Title	Summary	Application date of standard	Impact on financial report	Application date for HomeStart
AASB 9	Financial Instruments	The main impact of this standard is that it changes the requirements for the classification, measurement and disclosure associated with financial assets and liabilities. In respect of financial assets, AASB 9 simplifies the classification to amortised cost and fair value based on the entity's business model and the contractual cash flows of the instrument.	1 January 2017	HomeStart has commenced reviewing the measurement of its financial assets against the new classification and measurement requirements in AASB 9. The classification at the initial date of application of AASB 9 will depend on the facts existing at that date. HomeStart's assessment will not be confirmed until closer to that time.	1 July 2017
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 (AASB 1,3,4,5,7,101,102,108,112,118, 121,127, 128,131,132,136,139, 1023, & 1038 and interpretations 10 & 12)	When AASB 9 is applied, AASB 2009-11 and AASB 2010-7 must also be applied at the same time. These standards make consequential amendments to other standards as a result of the issuance of AASB 9.		As part of the implementation of AASB 9 HomeStart will perform an assessment of financial assets and determine if they will be measured at amortised cost or fair value.	
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (AASB 1,3,4,5,7, 101,102,108,112,118,120,121, 127,128,131,132,136,137,139, 1023 & 1038 and interpretations 2,5,10,12,19 & 127)			Changed disclosure requirements will also apply.	
AASB 2012-6	Amendments to Australian Accounting Standards = Mandatory Effective Date of AASB 9 and Transition Disclosures	AASB 2012-6 amends the mandatory effective date of AASB 9 to 1 Jan 2015 instead of 1 Jan 2013.			
AASB 2013-9	Amendments to Australian Accounting Standards, Conceptual Framework, Materiality and Financial Instruments	AASB 2013-9 amends the mandatory effective date of AASB 9 to 1 Jan 2017 instead of 1 Jan 2015.			

Note 4
Segment reporting

As required by the *Housing and Urban Development (Administrative Arrangements) (HomeStart Finance) Regulations 2007*, HomeStart operates in one geographical segment (South Australia) and its principal activity is the provision of home finance to low and moderate income groups.

Note 5
Net interest income

Interest received/receivable	2014 $'000	2013 $'000
Loans and advances	107 361	120 511
Subsidised loans effective interest income	3 831	3 932
Subsidised loans fair value expense	(1 297)	(1 810)
Loan origination income amortisation	2 708	2 717
Deposits with banks	60	59
Total interest received/receivable	**112 663**	**125 409**
Interest paid/payable		
Borrowings from SAFA	(54 164)	(65 670)
Total interest paid/payable	**(54 164)**	**(65 670)**
Net interest income	**58 499**	**59 739**

Interest income on impaired loans is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. HomeStart has recognised interest income of $1.90 million ($1.70 million, 2012-13) on impaired loans. This interest has been included in the assets' carrying amounts when determining the amount of impairment loss to be included in the Statement of Profit or Loss and Other Comprehensive Income (refer to notes 2.6 and 2.11).

Note 6
Other income

Other income received/receivable	2014 $'000	2013 $'000
Fees and charges	3 456	3 587
Bad debts recovered	298	173
Unrealised change in fair value of loans [1]	2 375	-
Realised change in fair value of loans	372	249
Managed funds distribution	896	815
Unrealised change in fair value of investments	-	3
Interest received from investments at fair value through profit or loss	632	906
Interest received from available-for-sale investments	649	755
EquityStart grant	925	898
Community Service Obligation (CSO) subsidy	5 614	5 400
Other	86	297
Total other income	**15 303**	**13 083**

[1] The shared appreciation component of the Breakthrough Loan is measured at fair value through profit or loss. The fair value of this loan component is based on independent valuations of the properties pledged as collateral. The profits arising from changes in fair value are unrealised, prior year unrealised losses are disclosed at note 15 Other Expenses.

EquityStart grant funds and CSO subsidy received

During the financial year, HomeStart received $0.8 million ($0.7 million, 2012-13) in grant funds from the Department for Communities and Social Inclusion, to compensate HomeStart for costs incurred in relation to EquityStart Loans. Refer to note 31.2 for information in relation to the recognition of EquityStart grant income.

The Department of Treasury and Finance (DTF) makes a CSO subsidy payment to HomeStart as compensation for the provision of Advantage Loan and credit quality subsidies as well as administering the Nunga Loan program. In addition, on 30 April 2012 Cabinet approved that DTF would make an additional CSO payment to HomeStart each financial year to enable HomeStart to meet its target pre-tax Return on Equity (ROE) of 9% (if required). No such payment was received in the financial year ended 30 June 2014 ($nil, 2012-13).

Note 7
Net gain from disposal of assets

	2014 $'000	2013 $'000
Proceeds from disposal of assets	-	1
Net book value of assets disposed	-	-
Total net gain from disposal of assets	**-**	**1**

Note 8
Bad and impaired loans expense

	2014 $'000	2013 $'000
Bad and impaired loans expensed	897	844
Increase in provision for impairment	3 303	3 251
Total bad and impaired loans expense	**4 200**	**4 095**

Note 9
Government guarantee fee

	2014 $'000	2013 $'000
Government guarantee fee paid or payable	28 109	27 100
Total government guarantee fee paid or payable	**28 109**	**27 100**

HomeStart paid a guarantee fee of 1.6% of outstanding borrowings to the Department of Treasury and Finance in 2013-14 (1.5%, 2012-13).

Note 10
Employee expenses, remuneration and number of employees

	2014 $'000	2013 $'000
Salaries and wages	8 881	9 120
Long service leave	249	195
Annual leave	199	6
Employment on-costs – superannuation	831	834
Employment on-costs – other	462	482
Employment on-costs – workers compensation	24	11
Board and committee fees	264	244
Total employee expenses	**10 910**	**10 892**

Remuneration of employees	**2014 No.**	**2013 No.**
The number of employees whose remuneration received or receivable falls within the following bands:		
$138 000 to $141 499	n/a	2
$141 500 to $151 499	2	2
$151 500 to $161 499	1	-
$161 500 to $171 499	1	-
$171 500 to $181 499	1	-
$201 500 to $211 499	-	1
$241 500 to $251 499	1	-
$251 500 to $261 499	-	2
$261 500 to $271 499	1	-
$271 500 to $281 499	1	-
$341 500 to $351 499	-	1
$351 500 to $361 499	1	-
$531 500 to $541 499	-	1
Total number of employees	**9**	**9**

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, payments in lieu of leave, fringe benefits and any fringe benefits tax paid in respect of those benefits and any other salary sacrifice benefits. The total remuneration received by these employees for the year was $1.92 million ($2.14 million, 2012-13).

Number of employees

HomeStart employed 105 people at the end of the reporting period (110, 2012-13).

Note 11
Key management personnel disclosures

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

- John Oliver (Chief Executive Officer)
- John Rolfe (General Manager, Retail)
- Ian Wheaton (General Manager, Treasury, Finance & Risk).

Deborah Dickson (General Manager, Strategy, People & Operations) held authority and responsibility for planning, directing and controlling the activities of HomeStart from the start of the financial year until 27 October 2013.

Andrew Mills (Acting General Manager, Strategy, People & Operations) held authority and responsibility for planning, directing and controlling the activities of HomeStart from 4 November 2013 to the end of the financial year.

Key management personnel compensation

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

	2014 $	2013 $
Short-term employee benefits	1 006 555	1 158 734
Termination benefits	-	308 496
Long-term employee benefits (long service leave)	48 541	33 062
Long-term employee benefits (amounts paid to superannuation plans)	96 054	102 925
Total key management personnel compensation	**1 151 150**	**1 603 217**

Note 12
Related parties

All transactions between HomeStart and related parties are on arms-length terms and conditions.

During the financial year HomeStart undertook transactions with the following related parties. The nature and amounts of these transactions have been disclosed throughout the financial statements:

- employees who are key management personnel
- board members
- Department for Communities and Social Inclusion
- Department of Planning, Transport and Infrastructure
- Department of Treasury and Finance
- South Australian Government Financing Authority (SAFA).

Board members

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

- Jim Kouts (Chair)
- Chris Ward (Deputy Chair)
- Sue Edwards
- Lindsay Nicholson
- Maria Palumbo.

Claude Long was Chair of the Board of HomeStart from the start of the financial year until his retirement on 14 December 2013.

David Garrard was a member of the Board of HomeStart from the start of the financial year until his term expired on 13 March 2014.

Darryl Royans was a member of the Board of HomeStart from his appointment on 19 December 2013 until the end of the financial year.

Roseanne Healy was a member of the Board of HomeStart from her appointment on 14 March 2014 until the end of the financial year.

Board members' remuneration

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

	2014 $	2013 $
Short-term benefits	264 680	243 914
Long-term employee benefits (amounts paid to superannuation plans)	24 483	21 952
Total board members' remuneration	**289 163**	**265 866**

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

	2014 No.	2013 No.
$0 - $ 9 999	-	2
$10 000 - $19 999	2	-
$20 000 - $29 999	2	-
$30 000 - $39 999	2	3
$40 000 - $49 999	3	2
$50 000 - $59 999	-	1
Total number of board members	**9**	**8**

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

Note 13
Economic dependency

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

Financing services

SAFA is the sole provider of funds to HomeStart.

Loan management services

HomeStart contracts a significant proportion of its loan management services to BankSA, Homeloans Plus, Bernie Lewis and The Home Loan Centre. Effective 19 February 2014, Australian Associated Advisers Pty Ltd trading as KeyInvest Lending Services acquired the business and have taken over the loan manager services of The Home Loan Centre.

Note 14
Depreciation and amortisation expense

Depreciation	2014 $'000	2013 $'000
Other office and computer equipment	265	238
Total depreciation	**265**	**238**
Amortisation		
Leasehold improvements	225	217
Intangible assets	427	103
Total amortisation	**652**	**320**
Total depreciation and amortisation	**917**	**558**

Note 15
Other expenses

Other expenses	2014 $'000	2013 $'000
External auditor's remuneration	174	156
Valuer-General services	12	13
Insurance	96	86
Unrealised change in fair value of loans [1]	-	1 465
Unrealised change in fair value of investments	205	-
Office accommodation (minimum lease payments)	874	849
Marketing, product development and advertising	1 291	1 230
Internal audit fees	314	315
Loan administration	253	237
Information technology	900	564
Consultants' fees	93	56
Human resources and staff development	475	551
Other	1 737	1 644
Total other expenses	**6 424**	**7 166**

[1] The shared appreciation component of the Breakthrough Loan is measured at fair value through profit or loss. The fair value of this loan component is based on independent valuations of the properties pledged as collateral. The prior year losses arising from changes in fair value are unrealised, current year unrealised profits are disclosed at note 6 Other Income.

The number and dollar amount of consultancies paid/payable that fell within the following bands:	No	2014 $'000	No	2013 $'000
Below $10 000	3	14	3	10
Between $10 000 and $50 000	3	79	3	46
Total paid/payable to the consultants engaged	**6**	**93**	**6**	**56**

Note 16
Auditor's remuneration

	2014 $'000	2013 $'000
Audit fees paid/payable to the Auditor-General's Department relating to the audit of financial statements	174	156
Total audit fees	**174**	**156**

The amounts disclosed above are inclusive of GST.

Other services

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

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

17.1 Financial investments designated at fair value through profit or loss

	2014 $'000	2013 $'000
SAFA Cash Management Fund	5 422	6 544
Term deposits	18 000	17 085
Unit trusts	13 647	14 121
Breakthrough Loan (shared appreciation component)	70 943	70 549
Total financial investments designated at fair value through profit or loss	**108 012**	**108 299**

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

	2014 $'000	2013 $'000
At call	19 069	20 665
Not longer than three months	-	4 000
Longer than three months and not longer than twelve months	18 000	13 085
Longer than five years	70 943	70 549
Total investments designated at fair value through profit or loss	**108 012**	**108 299**

17.3 Risk exposure

Information in relation to HomeStart's exposure to investment price risk is provided at notes 33.4.3 and 33.4.4.

Note 18
Financial investments – held-to-maturity

18.1 Reconciliation of held-to-maturity investments

	2014 $'000	2013 $'000
Opening balance at 1 July	**-**	**12 089**
Reclassification to available-for-sale	-	(11 093)
Acquisitions	-	-
Disposals	-	(986)
Amortisation	-	(10)
Closing balance at 30 June	**-**	**-**

On 19 October 2012 HomeStart sold a bond with a face value of $1 million and maturity date of 25 February 2014. From this time it has reclassified the remaining held-to-maturity investment portfolio as available-for-sale, in accordance with AASB 139.

Note 19
Financial investments – available-for-sale

19.1 Financial investments – available-for-sale

	2014 $'000	2013 $'000
Bonds	11 971	13 958
Total financial investments – available-for-sale	**11 971**	**13 958**

19.2 Maturity profile of HomeStart's financial investments – available-for-sale

	2014 $'000	2013 $'000
Longer than three months and not longer than twelve months	1 043	4 094
Longer than twelve months and not longer than five years	8 650	6 649
Longer than five years	2 278	3 215
Total financial investments – available-for-sale	**11 971**	**13 958**

19.3 Risk exposure

Information in relation to HomeStart's exposure to investment price risk is provided at note 33.4.3.

19.4 Reconciliation of available-for-sale investments

	2014 $'000	2013 $'000
Opening balance at 1 July	**13 958**	-
Reclassification from held-to-maturity	-	11 093
Acquisitions	2 078	2 112
Disposals	(4 000)	-
Amortisation	(63)	(50)
Change in fair value (recognised directly in equity)	(2)	803
Closing balance at 30 June	**11 971**	**13 958**

Note 20
Loans and advances

20.1 Loans and advances

	2014 $'000	2013 $'000
Primary loans	1 748 748	1 805 740
Subsidised loans	87 906	85 957
Gross loans and advances	**1 836 654**	**1 891 697**
Fair value adjustment	(14 835)	(15 459)
Deferred loan fee income	(5 392)	(5 377)
Deferred loan fee expense	2 204	2 380
Specific provisions for impairment	(11 233)	(10 596)
Collective provision for impairment	(9 221)	(9 512)
Net loans and advances	**1 798 177**	**1 853 133**
Specific provision for impaired loans		
Opening balance	10 596	9 247
Bad debts written-off	(2 957)	(2 360)
Impairment expense	3 594	3 709
Closing balance	**11 233**	**10 596**
Collective impairment provision		
Opening balance	9 512	9 970
Impairment expense	(291)	(458)
Closing balance	**9 221**	**9 512**
Total provision for impairment	**20 454**	**20 108**

20.2 Risk exposures

Information in relation to HomeStart's exposure to credit risk for loans and advances is provided at note 33.2.1.

Note 21
Other financial assets

	2014 $'000	2013 $'000
Deferred financial investment income	134	138
Accrued interest on housing loans and advances	293	313
Accrued interest on cash at bank	-	11
Accrued financial investment income	33	471
EquityStart grant receivable	85	136
GST recoverable	59	47
Other	165	20
Total other financial assets	**769**	**1 136**

Note 22
Property, plant and equipment

	2014 $'000	2013 $'000
Leasehold improvements		
Leasehold improvements at cost (deemed fair value)	2 269	2 249
Accumulated depreciation	(1 829)	(1 604)
Total leasehold improvements	**440**	**645**
Other office and computer equipment		
Other office and computer equipment at cost (deemed fair value)	3 199	3 303
Accumulated depreciation	(2 803)	(2 726)
Total other office and computer equipment	**396**	**577**
Total property, plant and equipment	**836**	**1 222**

	Leasehold improvements $'000	Other office and computer equipment $'000	Total $'000
Carrying amount at 30 June 2012	**810**	**551**	**1 361**
Additions – at cost (deemed fair value)	52	264	316
Disposals – at cost (deemed fair value)	(5)	(53)	(58)
Disposals – accumulated depreciation	5	53	58
Depreciation and amortisation	(217)	(238)	(455)
Carrying amount at 30 June 2013	**645**	**577**	**1 222**
Additions – at cost (deemed fair value)	20	84	104
Disposals – at cost (deemed fair value)	-	(188)	(188)
Disposals – accumulated depreciation	-	188	188
Depreciation and amortisation	(225)	(265)	(490)
Carrying amount at 30 June 2014	**440**	**396**	**836**

All items of plant and equipment that had a fair value at the time of acquisition that was less than $1 million or had an estimated useful life that was less than three years, have not been revalued in accordance with APF 111. The carrying value of these items are deemed to approximate fair value. These assets are classified in level 3 as there has been no subsequent adjustments to their value, except for management assumptions about the asset condition and remaining useful life.

Note 23
Intangible assets

	2014 $'000	2013 $'000
Software at cost	6 038	4 989
Accumulated amortisation	(1 580)	(1 417)
Total software	**4 458**	**3 572**
Carrying amount at 1 July	**3 572**	**1 561**
Additions	1 313	2 114
Disposals	-	-
Amortisation	(427)	(103)
Carrying amount at 30 June	**4 458**	**3 572**

All intangible assets were acquired externally directly from software suppliers or through contract arrangements.

Note 24
Other assets

	2014 $'000	2013 $'000
Prepayments	416	303
Total other assets	**416**	**303**

Note 25
Fair value measurement

Fair value hierarchy

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 a hierarchy based on the level of inputs used in their measurement.

Fair value measurements recognised in the Statement of Financial Position have all been categorised as level 3 and are detailed in the following tables.

Fair value measurements at 30 June 2014

	2014 $'000	Level 3 $'000
Recurring fair value measurements		
Leasehold improvements	440	440
Plant & equipment	396	396
Total fair value measurements	**836**	**836**

Fair value measurements at 30 June 2013

	2013 $'000	Level 3 $'000
Recurring fair value measurements		
Leasehold improvements	645	645
Plant & equipment	577	577
Total fair value measurements	**1 222**	**1 222**

There were no transfers of assets between level 1 and 2 fair value hierarchy levels in 2014. HomeStart policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period.

Valuation techniques used to derive level 2 and 3 fair values are provided at note 22. Although unobservable inputs were used in determining fair value, and 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 2014. The following table is a reconciliation of fair value measurements using significant unobservable inputs (level 3).

Reconciliation of fair value measurements - Level 3

	Plant & equipment $'000
Opening balance at the beginning of the period	**1 222**
Acquisitions	104
Depreciation	(490)
Closing balance at the end of the period	**836**

Note 26
Payables

26.1 Payables

	2014 $'000	2013 $'000
Payables		
Creditors	336	303
Accrued administration expenses	312	233
Employment on-costs	370	385
Accrued interest payable on borrowings	2 359	3 038
Accrued interest payable on derivatives	142	323
Accrued guarantee fee payable	2 278	2 211
Accrued loan manager fees	525	491
Total payables	**6 322**	**6 984**

26.2 Settlement profile of HomeStart's payables

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

Note 27
Borrowings

27.1 Interest bearing liabilities

	2014 $'000	2013 $'000
Short-term borrowings payable		
Short-term borrowings	635 134	587 560
Total short-term borrowings payable	**635 134**	**587 560**
Long-term borrowings payable		
Long-term borrowings	1 102 000	1 212 000
Total long-term borrowings payable	**1 102 000**	**1 212 000**
Total interest bearing liabilities	**1 737 134**	**1 799 560**

27.2 Security

All HomeStart borrowings are unsecured.

27.3 Risk exposure

Information in relation to HomeStart's exposure to liquidity and interest rate risks is provided at notes 33.3 and 33.4 respectively.

Note 28
Employee benefits

28.1 Employee benefits

	2014 $'000	2013 $'000
Accrued salaries	33	-
Annual leave	762	640
Long service leave	1 562	1 511
Total employee benefits	**2 357**	**2 151**

28.2 Calculation of long service leave

AASB 119 *Employee Benefits* contains the calculation methodology for long service leave liability. The actuarial assessment performed by the Department of Treasury and Finance utilised the whole of government assumptions for the measurement of long service leave.

AASB 119 requires the use of the yield on long-term Commonwealth Government bonds as the discount rate in the measurement of the long service leave liability. The yield on long term Commonwealth Government bonds at balance date was 3.50% (3.75% 2013).

The actuarial assessment performed by the Department of Treasury and Finance left the salary inflation rate at 4.0%. As a result, there is no net financial effect resulting from changes in the salary inflation rate.

28.3 Settlement period of long service leave

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

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

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

Note 29
Income tax equivalents payable

	2014 $'000	2013 $'000
Income tax equivalents payable	2 751	2 659
Total tax equivalents liability payable	**2 751**	**2 659**

Note 30
Provision for dividend

	2014 $'000	2013 $'000
Dividend payable	554	576
Total dividend payable	**554**	**576**

Pursuant to Section 26 of the *Housing and Urban Development (Administrative Arrangements) Act 1995*, HomeStart must recommend to the Minister for Housing and Urban Development, that it pay a specified dividend or not pay a dividend, for the financial year, as it considers appropriate. The Minister may, in consultation with the Treasurer, by notice to HomeStart approve its recommendation or determine that another dividend, or no dividend, should be paid.

For the financial year ended 30 June 2014, the Board of HomeStart recommended the payment of a dividend of 60% of after tax profit (60%, 2012-13). This amounts to a total dividend of $7.16 million in respect of the year ended 30 June 2014 ($6.87 million, 2012-13). The Minister and Treasurer approved the recommendation and the estimated amount to be paid in June 2014.

HomeStart paid a dividend amount of $6.6 million to the Department of Treasury and Finance prior to the end of the financial year ($6.3 million, 2012-13). HomeStart will be required to pay a further dividend amount of $0.56 million in respect of the financial year ended 30 June 2014 ($0.57 million, 2012-13). These amounts are disclosed as a dividend paid/payable.

Note 31
Other liabilities

31.1 Other liabilities

	2014 $'000	2013 $'000
Other liabilities payable		
Unearned income (EquityStart grant)	1 008	1 199
Workers compensation provision	38	21
Wyatt Benevolent Institution	2 315	2 159
Make good provision	226	211
City of Salisbury	4	4
Total other liabilities	**3 591**	**3 594**

31.2 Unearned income (EquityStart grant)

	2014 $'000	2013 $'000
Opening balance	**1 199**	**1 339**
Amounts received/receivable	734	758
Amount recognised as earned (note 6)	(925)	(898)
Closing balance	**1 008**	**1 199**

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

31.3 Make good provision

	2014 $'000	2013 $'000
Opening balance	**211**	**188**
Unwinding of discount arising from the passage of time	15	23
Closing balance	**266**	**211**

Note 32
Equity

General reserve for credit losses

A general reserve for credit losses was created within equity. The maintenance of this reserve is consistent with the Australian Prudential Regulation Authority (APRA) prudential risk management requirements of retaining sufficient retained earnings for capital adequacy purposes. Amounts in the general reserve for credit losses will not be reclassified to profit or loss.

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 is reclassified from equity to profit or loss.

Available-for-sale revaluation reserve

The available-for-sale revaluation reserve was created to recognise the gain or loss on investments that are classified as available-for-sale. A gain or loss on an available-for-sale financial asset is recognised in the available-for-sale revaluation reserve until the financial asset is derecognised. At that time, the cumulative gain or loss previously recognised in the available-for-sale revaluation reserve is reclassified from equity to profit or loss. When a decline in the fair value of an available-for-sale financial asset has been recognised in the available-for-sale revaluation reserve, and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in the available-for-sale revaluation reserve is reclassified from equity to profit or loss even though the financial asset has not been derecognised.

Note 33
Financial risk management

33.1 Overview

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

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

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

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

HomeStart's Board of Management has overall responsibility for the establishment and oversight of HomeStart's risk management framework. The board has established the Asset and Liability Committee (ALCO) and Audit Committee to develop and monitor HomeStart's risk management policies. In addition a Board Credit Sub-Committee has been formed to review and approve or recommend approval of individual loan applications which will result in an aggregate exposure to the borrower which exceeds $1.1 million.

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

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

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

In accordance with the best practice APRA framework, the Board Credit Sub-Committee will review and authorise individual loan applications where the resulting aggregate exposure of the borrower will exceed $1.1 million and individual loan applications greater than $1.1 million and where appropriate will recommend the loan to the Minister or the Cabinet.

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

33.2 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.

33.2.1 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 and ALCO.

The authority to make credit decisions in accordance with approved policies is delegated by the board to executive management.

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

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

b. Risk control and mitigation policies

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

Lending policies

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

Collateral

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

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

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

In the event of a loan default, any loan security is held as 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 annual property data or a current formal valuation. As at year-end the fair value of collateral for past due and impaired loans was:

	2014 $'000	2013 $'000
Past due but not impaired		
Gross carrying value	104 045	108 510
Fair value of collateral	153 499	162 840
Impaired		
Gross carrying value, before specific impairment provisions	51 197	44 957
Specific provision for impairment	(11 233)	(10 596)
Net impaired loans and advances	**39 964**	**34 361**
Fair value of collateral	52 943	45 896

Concentration of counterparty and geographic risk

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

Approximately 26% (27%, 2012-13) of HomeStart's loans by value are secured against properties outside the Adelaide metropolitan area. This represents a risk as the limited market liquidity in country regions as well as the less diversified nature of rural economies can lead to greater volatility in property values. HomeStart currently manages this risk by imposing stricter Loan to Valuation Ratio (LVR) limits when lending in some country locations, and excluding others completely.

At reporting date 31% (30%, 2012-13) of HomeStart's loans by value were secured against properties in the City of Salisbury and the City of Playford. HomeStart's exposure to risk in this geographic area is managed through lending policies as well as obtaining and managing collateral, as described on page 65.

Higher LVR loans

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

Loan Provision Charge

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

c. Credit risk measurement

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

This operational measurement can be contrasted with the impairment allowances required by AASB 139, which are based on the existence of objective evidence of impairment at the reporting date rather than expected losses (note 2.11 and note 20).

The amount of incurred credit losses provided for in the financial statements differs from the amount determined from the expected loss model that is used for internal operational management due to the different methodologies applied.

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

d. Credit quality and maximum exposure to credit risk

HomeStart's maximum exposure to credit risk has been recognised in the Statement of Financial Position as the carrying amount, net of any provisions for impairment of $1798.18 million ($1853.13 million, 2012-13).

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

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

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

	2014 $'000	2013 $'000
Not impaired		
Neither renegotiated nor past due		
Low risk	1 439 626	1 422 139
Moderate risk	217 917	289 917
High risk	11 012	17 685
Gross loans and advances neither renegotiated nor past due	**1 668 555**	**1 729 741**
Renegotiated (1)		
Low risk	8 612	5 935
Moderate risk	2 554	1 901
High risk	1 691	653
Gross loans and advances renegotiated	**12 857**	**8 489**
Past due but not impaired (2)		
Low risk	54 547	48 162
Moderate risk	36 230	45 410
High risk	13 268	14 938
Gross loans and advances past due but not impaired	**104 045**	**108 510**
Total not impaired		
Low risk	1 502 785	1 476 236
Moderate risk	256 701	337 228
High risk	25 971	33 276
Gross loans and advances not impaired	**1 785 457**	**1 846 740**
Impaired (3)		
Low risk	16 685	12 518
Moderate risk	27 399	22 705
High risk	7 113	9 734
Gross impaired loans and advances	*51 197*	*44 957*
Specific provision for impairment	(11 233)	(10 596)
Impaired loans and advances after provisions	**39 964**	**34 361**
Total		
Low risk	1 519 470	1 488 754
Moderate risk	284 100	359 933
High risk	33 084	43 010
Gross loans and advances	*1 836 654*	*1 891 697*
Fair value adjustment	(14 835)	(15 459)
Deferred loan fee income	(5 392)	(5 377)
Deferred loan fee expense	2 204	2 380
Specific provision for impairment	(11 233)	(10 596)
Collective provision for impairment	(9 221)	(9 512)
Net loans and advances	**1 798 177**	**1 853 133**

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

	2014 $'000	2013 $'000
<30 days	82 193	85 214
30 – 59 days	14 028	14 725
60 – 89 days	3 202	4 956
90 – 179 days	3 267	2 396
>179 days	1 355	1 219
Total	**104 045**	**108 510**

(1) Loans and advances renegotiated

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

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

Renegotiated loans that would otherwise be past due or impaired totalled $12.9 million as at 30 June 2014 ($8.5 million, 2012-13).

(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.

33.2.2 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 2014 and 30 June 2013, HomeStart did not have any exposure to credit risk arising from derivative financial liabilities.

	2014 $'000	2013 $'000
Derivative financial instruments	**(5 929)**	**(6 267)**
Swap income receivable	164	281
Swap expense payable	(306)	(604)
Net payable (note 26)	**(142)**	**(323)**

Further information in relation to derivatives is disclosed at notes 33.3.3 and 33.4.2.

33.3 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.

33.3.1 Liquidity risk management

Risks relating to liquidity are governed by a range of treasury management policies, which are subject to oversight by ALCO.

HomeStart's liquidity management process is carried out and monitored by HomeStart's internal Treasury, Finance & Risk department and includes:

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

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

Whole of government policy requires that HomeStart hold a positive balance in its operating bank account. HomeStart's internal policy requires maintaining daily cash at an agreed target balance.

33.3.2 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 $2105 million as at 30 June 2014 ($2105 million at 30 June 2013).

33.3.3 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% (40%, 2012-13) of total debt outstanding.

% of debt subject to refinancing in the next 12 month period	**2014 %**	**2013 %**
At 30 June	36.56	32.65
Average for the period	23.10	28.01
Maximum for the period	36.56	36.57
Minimum for the period	6.35	23.94

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

2014	**Up to 1 month $'000**	**1-3 months $'000**	**3-12 months $'000**	**1-5 years $'000**	**Over 5 years $'000**	**Total $'000**	**Carrying value $'000**
Liabilities							
Payables	4 044	2 278	-	-	-	6 322	6 322
Borrowings	39 841	8 002	633 437	1 153 661	-	1 834 941	1 737 134
Other financial liabilities	-	1 376	1 929	-	-	3 305	3 305
Total liabilities (contractual maturity dates)	**43 885**	**11 656**	**635 366**	**1 153 661**	**-**	**1 844 568**	**1 746 761**

2013	**Up to 1 month $'000**	**1-3 months $'000**	**3-12 months $'000**	**1-5 years $'000**	**Over 5 years $'000**	**Total $'000**	**Carrying value $'000**
Liabilities							
Payables	4 773	2 211	-	-	-	6 984	6 984
Borrowings	122 517	57 719	450 755	1 300 012	-	1 931 003	1 799 560
Other financial liabilities	-	1 329	1 906	-	-	3 235	3 235
Total liabilities (contractual maturity dates)	**127 290**	**61 259**	**452 661**	**1 300 012**	**-**	**1 941 222**	**1 809 779**

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

b. Derivative cash flows

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

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

	Up to 1 month $'000	1-3 months $'000	3-12 months $'000	1-5 years $'000	Over 5 years $'000	Total $'000
2014	(226)	(429)	(2 290)	(5 905)	(62)	**(8 912)**
2013	(429)	(389)	(2 534)	(3 506)	143	**(6 715)**

Further information in relation to derivatives is disclosed at notes 33.2.2 and 33.4.2.

c. Off balance sheet

The periods of payment of unrecognised contractual commitments are disclosed at note 35.

33.4 Market risk

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

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

33.4.1 Market risk management

HomeStart's market risk management processes are overseen by the board and ALCO.

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

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

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

33.4.2 Interest rate risk – derivative financial instruments

a. Risk control and mitigation policies

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

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

HomeStart receives a fixed rate of interest on a portion of its loans to customers and pays floating interest on borrowings from SAFA. To protect it from an increase in interest rates payable on its borrowings, HomeStart enters into interest rate swap contracts in order to hedge this mismatch of cash flows.

As at 30 June 2014, HomeStart had floating/fixed swaps with a notional value of $177 million ($198 million, 2012-13) with fixed rates varying between 2.69% and 7.21% (2.70% and 7.42%, 2012-13).

As at 30 June 2014, HomeStart had $nil floating/floating swaps ($30 million, 2012-13 with a floating rate of 3.07%).

Periods to maturity of the interest rate swap contracts are disclosed at note 33.3.3(b).

b. Market risk measurement and maximum exposure to interest rate risk

The major risk measurement process used by HomeStart to measure and control interest rate risk is the Value at Risk (VaR) methodology. Risk measurement and management is further enhanced through the calculation of Present Value per Basis Point (PVBP) as well as the use of stress testing.

Value at Risk (VaR)

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

HomeStart's VaR methodology models non-parallel shifts in the yield curve using the last 250 days of historical interest rate data to predict within a 99% confidence interval the likely outcome for the market value of a position or portfolio assuming it takes ten days to unwind the open positions that give rise to the exposure.

Although VaR represents a good estimate of potential losses under normal market conditions, the model is necessarily based on reasonable management assumptions. Actual outcomes may therefore differ from expected results calculated using the VaR model.

ALCO has approved a maximum loss limit of $1.1 million. The VaR as at 30 June 2014 was $50 450 ($182 518, 2012-13).

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, to enable the portion of the effective gain or loss to be recognised in equity.

Fluctuations in the fair value of these transactions are not recognised in the Statement of Profit or Loss and Other Comprehensive Income when HomeStart designates the instrument into a hedge relationship and satisfies the 'hedge accounting' requirements contained in *AASB 139 Financial Instruments: Recognition and Measurement*.

The gain or loss from remeasuring the instruments at fair value is deferred in equity in the derivatives valuation reserve, to the extent that the hedge is effective. The ineffective portion is recognised in the Statement of Profit or Loss and Other Comprehensive Income immediately.

In the year ended 30 June 2014, a $0.4 million gain ($4.3 million loss, 2012-13) was recognised in equity during the period.

Further information in relation to derivatives is disclosed at notes 33.2.2 and 33.3.3.

33.4.3 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 as fair value through profit or loss.

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

b. Maximum exposure to investments price risk

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

c. Sensitivity analysis

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

2014	**Carrying amount $'000**	**-10%**	**10%**
Unit trusts	13 647	(1 365)	1 365
SAFA Cash Management Fund	5 422	(542)	542
Total increase/(decrease) in profit before tax and equity		**(1 907)**	**1 907**

2013	**Carrying amount $'000**	**-10%**	**10%**
Unit trusts	14 121	(1 412)	1 412
SAFA Cash Management Fund	6 544	(654)	654
Total increase/(decrease) in profit before tax and equity		**(2 066)**	**2 066**

33.4.4 *Breakthrough Loan property price risk*

a. Risk control and mitigation policies

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

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

b. Maximum exposure to property price risk

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

c. Sensitivity analysis

The following table summarises the sensitivity of HomeStart's profit to movements in the values of properties used as collateral for a Breakthrough Loan. The analysis is based on the assumption of a 51% increase or decrease in property market value at year-end, with all other variables being held constant.

	2014 Carrying amount $'000	**-5%**	**5%**
Breakthrough Loan	70 943	(4 134)	4 516
Total increase/ (decrease) in profit before tax and equity		**(4 134)**	**4 516**

	2013 Carrying amount $'000	**-5%**	**5%**
Breakthrough Loan	70 549	(3 933)	4 300
Total increase/ (decrease) in profit before tax and equity		**(3 933)**	**4 300**

33.4.5 *Currency risk*

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

Note 34
Fair value and categorisation of financial instruments

34.1 Fair value and categorisation of financial instruments

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

Details of the significant accounting policies and methods adopted including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised with respect of each class of financial asset and financial liability are disclosed at note 2.

			2014		2013
	Category	**Carrying value $'000**	**Fair value $'000**	**Carrying value $'000**	**Fair value $'000**
Financial assets					
Cash and cash equivalents	N/A	3 320	3 320	4 373	4 373
Investments	Fair value through profit or loss	108 012	108 012	108 299	108 299
Investments	Available-for-sale	11 971	11 971	13 958	13 958
Loans and advances	Amortised cost	1 798 177	1 798 554	1 853 133	1 906 263
Other financial assets	Financial assets (at cost)	769	769	1 136	1 136
Total financial assets		**1 922 249**	**1 922 626**	**1 980 899**	**2 034 029**
Financial liabilities					
Borrowings	Financial liabilities (amortised cost)	1 737 134	1 743 647	1 799 560	1 803 175
Other liabilities	Financial liabilities (amortised cost)	3 591	3 591	3 594	3 594
Derivative financial instruments	Hedge accounting (fair value through equity)	5 929	5 929	6 267	6 267
Payables	Financial liabilities (at cost)	6 322	6 322	6 984	6 984
Income tax equivalents payable	Financial liabilities (at cost)	2 751	2 751	2 659	2 659
Provision for dividend	Financial liabilities (at cost)	554	554	576	576
Total financial liabilities		**1 756 281**	**1 762 794**	**1 819 640**	**1 823 255**
Net financial assets		**165 968**	**159 832**	**161 259**	**210 774**

34.2 Fair value estimation

a. Derivatives

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

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

c. Investments

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

d. Shared appreciation component of the Breakthrough Loan

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

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

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

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

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

	2014 %	2013 %
Valuation determined using an automated method (Hometrack Australia)	96.51	93.12
Valuation provided by the Valuer-General	1.98	6.33
Other independent valuation used	1.51	0.55

Bonds

The fair value of bonds is calculated using observable market prices.

34.3 Hierarchical classification of financial assets measured at fair value

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

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

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

2014	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets measured at fair value				
SAFA Cash Management Fund	-	5 422	-	5 422
Term deposits	-	18 000	-	18 000
Unit trusts	-	13 647	-	13 647
Bonds	-	11 971	-	11 971
Breakthrough Loan	-	-	70 943	70 943
Total financial assets measured at fair value	**-**	**49 040**	**70 943**	**119 983**
Financial liabilities measured at fair value				
Derivative financial instruments	-	5 929	-	5 929
Total financial liabilities measured at fair value	**-**	**5 929**	**-**	**5 929**

2013	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets measured at fair value				
SAFA Cash Management Fund	-	6 544	-	6 544
Term deposits	-	17 085	-	17 085
Unit trusts	-	14 121	-	14 121
Bonds	-	13 958	-	13 958
Breakthrough Loan	-	-	70 549	70 549
Total financial assets measured at fair value	**-**	**51 708**	**70 549**	**122 257**
Financial liabilities measured at fair value				
Derivative financial instruments	-	6 267	-	6 267
Total financial liabilities measured at fair value	**-**	**6 267**	**-**	**6 267**

34.4 Reconciliation of Level 3 fair value measurements

	2014 $'000	**2013 $'000**
Fair value at 1 July	**70 549**	**70 247**
Breakthrough Loan settlements	5 962	8 349
Breakthrough Loan discharges	(7 943)	(6 582)
Unrealised change in fair value of loans (note 15)	2 375	(1 465)
Fair value at 30 June	**70 943**	**70 549**

Note 33.4.4(c) discloses sensitivity of HomeStart's profit to movements in the values of properties used as collateral for a Breakthrough Loan.

Note 35
Unrecognised contractual arrangements

35.1 Capital commitments

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

	2014 $'000	2013 $'000
Not later than one year	-	286
Later than one year but not later than five years	-	-
Total capital commitments	**-**	**286**

HomeStart's capital commitments in 2013 were for the modification, customisation and implementation of a replacement Front End Loan System which was completed in 2014.

35.2 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:

	2014 $'000	2013 $'000
Not later than one year	453	377
Later than one year but not later than five years	1 432	1 885
Total capital commitments	**1 885**	**2 262**

HomeStart's software licence commitments in 2014 are in relation to a replacement Front End Loan System.

35.3 Operating leases

HomeStart as lessee

HomeStart's operating lease commitments are for office accommodation. The lease is non-cancellable with the term up to five years with the right of renewal. Rent is payable monthly in advance.

The total amount of rental expense for minimum lease payments in the financial year is disclosed at note 15.

Commitments under non-cancellable operating leases at the reporting date, not recognised as liabilities in the financial statements, are payable as follows:

	2014 $'000	2013 $'000
Not later than one year	909	901
Later than one year but not later than five years	76	933
Total operating lease commitments	**985**	**1 834**

35.4 Remuneration commitments

Commitments for the payment of salaries and other remuneration under fixed term employment contracts in existence at the reporting date are not recognised as liabilities.

Notes 10 and 11 set out remuneration costs for the years ended 30 June 2014 and 30 June 2013. HomeStart estimates that commitments from existing employment positions within one year and annually will be consistent with salaries and wages expenses at note 10, adjusted for the salary inflation rate.

35.5 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 $57.4 million ($47.0 million, 2012-13). These commitments are expected to be paid in the coming year.

Note 36
Contingent liabilities

HomeStart has no material contingent liabilities as at 30 June 2014.

Note 37
Cash flow reconciliation

37.1 Cash

For the purposes of the Statement of Cash Flows, cash and cash equivalents includes cash on hand and at bank.

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

	2014 $'000	2013 $'000
Profit for the year	**11 923**	**11 447**
Loss (gain) on sale of fixed assets	-	(1)
Amortisation of discount or premium on purchase of held-to-maturity financial investments	-	10
Amortisation of discount or premium on purchase of available for sale financial investments	63	50
Depreciation and amortisation expense	917	558
Unrealised change in fair value of loans	(2 375)	1 463
Unrealised change in market value of investments	205	(3)
Change in derivative financial instrument not recognised in equity	12	(12)
Reinvestment of managed funds distribution	(896)	(815)
Bad debts written-off	3 854	3 204
Loan interest charged but not received	(1 883)	(1 820)
Fees applied directly to loan accounts	(3 527)	(5 473)
Changes in assets and liabilities		
(Decrease) increase in provision for impairment	346	891
(Decrease) increase in deferred loan fee income	15	(209)
(Decrease) increase in deferred loan fee expense	176	352
(Decrease) increase in fair value adjustment	(624)	(591)
Increase (decrease) in payables	(584)	(432)
Increase in provision for employee benefits	206	194
Increase (decrease) in other liabilities	(3)	218
(Decrease) increase in income tax equivalents payable	92	484
(Increase) decrease in financial and other assets	176	(104)
Net cash provided by operating activities	**8 093**	**9 411**

Note 38
Transactions with SA Government

The following table discloses revenues, expenses, financial assets and liabilities where the counterparty is an entity within SA Government as at the reporting date, classified according to their nature. Transactions with SA Government entities below the threshold of $100 000 have been included with the non-government transactions, classified according to their nature.

		SA Government		Non-SA Government		Total	
Note		2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000
	Income						
5	Interest income	-	-	112 663	125 409	112 663	125 409
5	Interest expense on SAFA borrowings	(54 164)	(65 670)	-	-	(54 164)	(65 670)
6	**Other income**						
	Fees and charges	-	-	3 456	3 587	3 456	3 587
	Managed funds distribution	165	219	731	596	896	815
	Unrealised gain in fair value of loans	-	-	2 375	-	2 375	-
	EquityStart grant	925	898	-	-	925	898
	Community Service Obligation (CSO) subsidy	5 614	5 400	-	-	5 614	5 400
	Other	-	-	2 037	2 383	2 037	2 383
7	Net gain/(loss) from disposal of assets	-	-	-	1	-	1
	Total income	**(47 460)**	**(59 153)**	**121 262**	**131 976**	**73 802**	**72 823**
	Expenses						
8	Bad and impaired loans expense	-	-	(4 200)	(4 095)	(4 200)	(4 095)
	Loan manager fees	-	-	(6 210)	(6 659)	(6 210)	(6 659)
10	Employee expenses	(462)	(482)	(10 448)	(10 410)	(10 910)	(10 892)
14	Depreciation and amortisation expenses	-	-	(917)	(558)	(917)	(558)
15	**Other expenses**						
	External auditor remuneration	(174)	(156)	-	-	(174)	(156)
	Unrealised change in fair value of loans	-	-	-	(1 465)	-	(1 465)
	Office accommodation	-	-	(874)	(849)	(874)	(849)
	Marketing, product development and advertising	-	-	(1 291)	(1 230)	(1 291)	(1 230)
	Internal audit fees	-	-	(314)	(315)	(314)	(315)
	Loan administration	-	-	(253)	(237)	(253)	(237)
	Information technology	-	-	(900)	(564)	(900)	(564)
	Insurance	-	-	(96)	(86)	(96)	(86)
	Consultant fees	-	-	(93)	(56)	(93)	(56)
	Human resources and staff development	-	-	(475)	(551)	(475)	(551)
	Other	-	-	(1 954)	(1 657)	(1 954)	(1 657)
9	Government guarantee fee	(28 109)	(27 100)	-	-	(28 109)	(27 100)
	Total expenses	**(28 745)**	**(27 738)**	**(28 025)**	**(28 732)**	**(56 770)**	**(56 470)**

		SA Government		Non-SA Government		Total	
Note		2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000
	Financial assets						
	Cash and cash equivalents	-	-	3 320	4 373	3 320	4 373
	Financial investments at fair value	5 422	6 544	102 590	101 755	108 012	108 299
	Financial investments available for sale	-	-	11 971	13 958	11 971	13 958
	Financial investments held-to-maturity	-	-	-	-	-	-
	Loans and advances	-	-	1 798 177	1 853 133	1 798 177	1 853 133
	Other financial assets	-	136	769	1 000	769	1 136
	Total financial assets	**5 422**	**6 680**	**1 916 827**	**1 974 219**	**1 922 249**	**1 980 899**
	Financial liabilities						
	Payables	(5 333)	(6 104)	(989)	(880)	(6 322)	(6 984)
	Derivative financial instruments	(5 929)	(6 267)	-	-	(5 929)	(6 267)
	Short-term borrowings	(635 134)	(587 560)	-	-	(635 134)	(587 560)
	Employee benefits	-	-	(2 357)	(2 151)	(2 357)	(2 151)
	Income tax equivalents payable	(2 751)	(2 659)	-	-	(2 751)	(2 659)
	Provision for dividend	(554)	(576)	-	-	(554)	(576)
	Other liabilities	(1 008)	(1 199)	(2 583)	(2 395)	(3 591)	(3 594)
	Long term borrowings	(1 102 000)	(1 212 000)	-	-	(1 102 000)	(1 212 000)
	Total financial liabilities	**(1 752 709)**	**(1 816 365)**	**(5 929)**	**(5 426)**	**(1 758 638)**	**(1 821 791)**

Note 39
Events after balance date

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

INDEPENDENT AUDITOR'S REPORT

Government of South Australia
Auditor-General's Department

9th Floor
State Administration Centre
200 Victoria Square
Adelaide SA 5000

DX 56208
Victoria Square

Tel +618 8226 9640
Fax +618 8226 9688

ABN 53 327 061 410

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

To the Chair
HomeStart Finance

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 accompanying financial report of HomeStart Finance for the financial year ended 30 June 2014. The financial report comprises:

- a Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2014
- a Statement of Financial Position as at 30 June 2014
- a Statement of Changes in Equity for the year ended 30 June 2014
- a Statement of Cash Flows for the year ended 30 June 2014
- notes, comprising a summary of significant accounting policies and other explanatory information
- a Certificate from the Chair, Deputy Chair, Chief Executive Officer and General Manager Treasury, Finance and Risk.

Board's Responsibility for the Financial Report

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

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with the requirements of the *Public Finance and Audit Act 1987* and Australian Auditing Standards. The auditing standards require that the auditor comply with relevant ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

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

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

Opinion

In my opinion, the financial report gives a true and fair view of the financial position of HomeStart Finance as at 30 June 2014, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

S O'Neill
AUDITOR-GENERAL
23 September 2014

HomeStart Finance

Office address
153 Flinders Street
Adelaide SA 5000

Postal address
GPO Box 1266
Adelaide SA 5001

ABN 82 829 169 885
ISSN 1834–1810

Telephone 1300 636 878
Facsimile 08 8203 4001
Visit **homestart.com.au**

Auditors
Auditor-General of South Australia

Financial Statements
The financial statements in this Annual Report have been extracted from the full accounts which have been submitted to the Auditor-General.

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