

Capital Works Management Framework

Prequalification (PQC) System - contractor financial requirements

The suite of *Capital Works Management Framework* documents is available online (www.hpw.qld.gov.au):

- The Capital Works Management Framework policy document describes the capital works management process and contains the policy requirements.
- Guidelines complement the policy document and expand on various aspects of the capital works management process, particularly in terms of best practice procedures. The Prequalification (PQC) System guidelines are also included in the *Capital Works Management Framework* suite of documents.
- Policy advice notes provide advice on particular policy issues and/or procurement processes relating to the planning and delivery of government building projects.
- The Online Toolbox provides online support to assist in the implementation of best practice planning and delivery of government building projects. It includes flowcharts, applications, and a checklist.

Prequalification (PQC) System – contractor financial requirements

Queensland Department of Housing and Public Works

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1.0 Introduction

- 1.1 The Queensland Government is a major procurer of building projects undertaken in Queensland. As both steward of public monies and Principal, the State requires particular financial capacity assurances from contractors seeking to undertake a ‘government building project’ (refer Attachment 1).
- 1.2 This guideline provides detailed information about financial criteria considered in determining the prequalification status of a contractor, the financial capacity of a preferred tenderer, and the financial capacity assessment process for government building projects.
- 1.3 The financial requirements set out in this document:
 - a) provide the basis for contractors seeking registration on the Queensland Government’s Prequalification (PQC) System
 - b) allow the Department of Housing and Public Works (DHPW) to maintain a whole-of-Government framework covering the tendering, selection and acceptance processes for government building projects
 - c) are applied by a government department when undertaking a financial capacity assessment¹ of the preferred tenderer on all government building projects exceeding \$1,000,000 in value, under policy requirement 9 of the *Capital Works Management Framework* (CWMF).
- 1.4 These financial criteria are based upon, and should be read in conjunction with, the *Queensland Building and Construction Commission (Minimum Financial Requirements) Regulation 2018*.
- 1.5 For all government building projects that involve ‘building work’ as defined by the *Queensland Building and Construction Commission Act 1991* (QBCC Act), the contractor must hold a contractor’s licence of the appropriate class issued by the QBCC.
- 1.6 The fundamental principle of these financial requirements is that the required ‘Net Tangible Assets recognised by the Government’ (NTA-Govt, refer section 2), of prequalified contractors need to be legally and beneficially owned by the contractor (assets held by a contractor as trustee or manager of a trust are not included in the calculation of NTA-Govt). In turn, this amount of NTA-Govt is used to calculate the ‘Maximum Revenue in the Queensland Government sector’ (Maximum Revenue-Govt, refer section 5) and the ‘Maximum Annualised Contract Value’ (refer to Section 8.3) the contractor is permitted to undertake in this sector.
- 1.7 The policy objectives of these requirements are to reinforce security of payment on Queensland Government building projects and to ensure that the majority of sound well-managed building industry contracting businesses in Queensland are not subjected to unreasonable levels of reporting and red tape. For many businesses, the requirements will allow greater control over business practices and help to improve their financial management and long term viability.
- 1.8 The financial requirements set out in this document are also designed to further improve the Queensland building industry’s viability.

¹ Departments will engage a financial assessment company from the whole-of-Government Professional Services Panel to undertake the financial capacity assessment.

- 1.9 The requirements consider typical business structures currently operating in the industry and provide definitions of key criteria for the assistance of contractors and their financial advisors.
- 1.10 In this document, ‘contractor’ means any individual, company or other person (including partnerships, joint ventures, and groups of related companies) that tenders to, or contracts directly with, a government department on a government building project.
- 1.11 Where the nature of the work to be undertaken under the government building project requires that the contractor be appropriately licensed with the QBCC, it is imperative that partnerships and joint venture arrangements satisfy licensing requirements. In the case of a formal partnership recognised by the QBCC (which must be a partnership arrangement that is effected in accordance with the *Partnership Act 1891*, as well as being an arrangement recognised as a partnership by the QBCC), at least one party must be licensed by the QBCC. In any other partnership or joint venture arrangement (which is not recognised by the QBCC), all parties must be licensed by the QBCC. Similarly, in the case of a group of related companies, each company in the group must be licensed by the QBCC, unless a formal partnership exists (as outlined above).
- 1.12 Government will periodically review these requirements in association with representatives of the building industry and the accounting profession.

2.0 Structure of entity and calculation of Net Tangible Assets

- 2.1 Contractors are encouraged to discuss their individual situation with their accountant and/or solicitor when considering any issues or options under this section.
- 2.2 For the purposes of registration on the PQC System and contracting on government building projects invited under the PQC System:
 - a) the ‘Net Tangible Assets recognised by the Government’ (NTA-Govt) of a contractor, used to determine their Maximum Revenue in the Queensland Government sector (refer section 5.0), need to be legally and beneficially owned by the contractor (assets held by a contractor as trustee or manager of a trust are not included in the calculation of NTA-Govt)
 - b) personal furniture, boats, personal recreational and unregistered vehicles and trade or barter dollars are excluded from NTA-Govt
 - c) related entity loans and investments (whether collectible or not collectible) to a related entity, subsidiary or an associated entity and Deeds of Covenant and Assurance provided on behalf of the contractor to satisfy QBCC licensing requirements are excluded from NTA-Govt.
 - d) where a central treasury function is in place, this is regarded as a related entity loan
 - e) all debts incurred by related entities are regarded as related entity loans
 - f) unsecured asset loans and unlisted investments are excluded from NTA-Govt
 - g) only the amount held in a Project Bank Account in which the contractor has a beneficial interest under the *Building Industry Fairness (Security of Payment) Act 2017*, section 9(3), other than amounts held in the retention trust account or disputed funds trust account, is recognised as an asset in the calculation of NTA-Govt

- h) liability loans (whether secured or unsecured) are included in the calculation of NTA-Govt
 - i) arrangements under a registered Class Order made in accordance with Australian Securities and Investment Commission (ASIC) Class Order (CO 98/1418) are not recognised when determining a contractor's NTA-Govt
 - j) asset revaluation reserves (resulting in a material increase greater than 10% in the asset position of a contractor) are excluded when determining a contractor's NTA-Govt, unless supported by valuations from a registered valuer (copy of valuation must be evidenced). In this regard, note that asset revaluation reserves can only be derived from non-current assets
 - k) real property (which is not listed on the market) is not to be classified as a current asset. Further, real property which has been listed on the market for an extended period of time (i.e. greater than 12 months), whether continuously or not, and including being relisted separately or in different parcels or otherwise altered and relisted, is not to be classified as a current asset
 - l) all matters subject to litigation are classified as contingent and therefore excluded when calculating NTA-Govt, unless an offer has been made and accepted, or a judgement handed down and an amount awarded (excludes matters subject to adjudication in accordance with the *Building Industry Fairness (Security of Payment) Act 2017*).
 - m) in the absence of reasonable proof of collectability², trade debtors 90 days and over will be deducted in full when determining a contractor's NTA-Govt
 - n) in relation to the level of securities and retentions provided by the contractor, where it is considered that these securities and retentions may be called up, the NTA-Govt of the contractor may be reduced by the amount, or portion, of such contingent liabilities
 - o) contractors are not permitted to undertake government building projects as a trustee or manager under trust arrangements
 - p) contractors are required to have an Australian Business Number (ABN) registered for Goods and Services Tax in the name of the contractor (not as trustee or manager for a trust).
- 2.3 Assets held by a trustee or manager under trust arrangements are excluded when calculating NTA-Govt. However, any liabilities incurred by the contractor in any role it may have as a trustee or manager for a trust must be deducted from the assets of the contractor when calculating NTA-Govt. If, however, the trustee or manager for a trust has a recognised right of indemnity to the assets of the trust relevant to the trust liabilities incurred, then the value of the indemnity may be set off against the trust liabilities.
- Assets which are excluded for the purposes of calculating NTA-Govt (as defined in section 2.2) are also to be excluded from the assets of the trust when calculating the value of the indemnity.
- 2.4 Individual circumstances for each contractor provide case-by-case opportunities for resolving any shortfall in the required NTA-Govt. Such opportunities may generally include:

² For example: a payment arrangement that has been agreed to by a trade debtor; or where the trade debtor is any government entity.

- a) injection or transfer of assets to the contractor
 - b) repayment or forgiving of loans or investments made by the contractor to related entities, subsidiaries or associated entities
 - c) entering into a Government-approved business arrangement (i.e. a partnership, joint venture or group of related companies) where the agreement is evidenced and satisfactory to the Department of Housing and Public Works, and the combined effect on the NTA-Govt of the parties to the arrangement is considered appropriate (including that all parties are to be jointly and severally liable)
 - d) provision of an externally sourced unconditional undertaking to the contractor in a form approved by Government. The undertaking would need to be specific to the project and meet the requirements of the Government's *Financial and Performance Management Standard 2009* (the Standard is subordinate legislation to the *Financial Accountability Act 2009*)
 - e) the contractor's stated commitment that any acceptance on a government building project in excess of the contractor's 'Maximum Annualised Contract Value', calculated under the One-Third Rule (refer to section 8.3), will be conditional on the contractor entering into a Government-approved Deed of Guarantee and Indemnity. In such cases, the contractor's NTA-Govt is artificially inflated by a portion (determined by Government) of the NTA-Govt of the non-contractor entity/ies (Guarantor/s). Upon any acceptance of the contractor's commitment by Government, all subsequent offers submitted by the contractor are to be submitted in accordance with such acceptance.
- 2.5 Contractors may elect to make submissions to the PQC Registrar, from time to time, for the consideration and possible acceptance of alternative means of increasing their NTA-Govt.
- 2.6 The means identified in section 2.4 a) and b) by which a contractor's NTA-Govt may be increased may be equally recognised by the QBCC for licensing purposes. Separate application, supported by an appropriate report from the contractor's accountant or auditor, will need to be made to the QBCC, where applicable, to increase the contractor's Maximum Revenue for licensing.
- 2.7 Prequalified contractors must ensure that:
- a) their financial arrangements and status meet the prescribed requirements set out in this document, relevant to their PQC registration status and current commitments
 - b) the PQC Registrar is informed at all times with regard to material fluctuations in their financial status that may affect their PQC registration status.
- 2.8 It is entirely at the discretion of the Government, whether investments in non-related entity publicly listed companies may be acceptable³.
- 2.9 Contractors operating in partnership or joint venture with other individuals and/or companies are required to maintain, and make available, documentation that evidences the partnership or joint venture and the assets of the partnership or joint venture. However, any limitation of liabilities among the parties to the partnership or joint venture will not be acceptable.

³ In instances where a contractor has provided details of such investment for the purposes of a financial capacity assessment, and is reliant on same to pass the assessment, a concern is to be raised by the financial assessment company in their report.

- 2.10 Where a contractor is based overseas or relies, in some form, on an overseas parent and/or partner to meet any part of the NTA-Govt requirements, the contractor must negotiate the acceptability of such arrangements with Government on a case-by-case basis.

3.0 Current Ratio – Government sector

- 3.1 Contractors must have a current ratio of 1:1. This identifies whether or not a contractor can meet debts when they fall due.
- 3.2 For Government contracting:
- a) current assets are:
 - i) to be drawn from the NTA-Govt defined as allowable under section 2
 - ii) to include any recognised right of indemnity to the assets of a trust relevant to the liabilities included under section 3.2 b)
 - b) current liabilities are to be drawn from the liabilities incurred by the contractor in any of its dealings, including any liabilities incurred as trustee or manager for any trust
 - c) any trading surplus is to be notionally distributed to beneficiaries as it would be at the end of an income year before calculations in 3.2 b) are made.
- 3.3 When identifying any indemnity from a trust under section 3.2 a), current assets of the trust exclude:
- a) personal furniture, boats, personal recreational and unregistered vehicles and trade or barter dollars
 - b) related entity loans and investments (whether collectible or not collectible) to a related entity, subsidiary or an associated entity
 - c) unsecured asset loans and unlisted investments.
- 3.4 Real property must be listed for sale on the market to be recognised as a current asset. However, real property which has been listed on the market for an extended period of time (i.e. greater than 12 months), whether continuously or not, and including being relisted separately or in different parcels or otherwise altered and relisted, will not be recognised as a current asset.
- 3.5 Term deposits used as security for bank guarantees given by a contractor are excluded from current ratio calculations.
- 3.6 Loans or investments from a related entity, subsidiaries or an associated entity are generally treated as current liabilities.

For a loan or investment from a related entity, subsidiary or associated entity to be treated as a non-current liability, evidence to that effect (such as minutes of a meeting of directors or a stamped loan agreement detailing when the loan is repayable) is required. However, the asset accounts of the related entity, subsidiary or associated entity must be similarly classified (evidence of such is also required).

4.0 Contracting and subcontract arrangements under the PQC System

- 4.1 The prequalified contractor shall only submit tenders invited under the PQC System in the name and associated ABN of the contractor registered on the PQC Database.
- 4.2 All claims for payment under government building projects entered into with the State are to be made under the ABN registered to the name of the prequalified contractor engaged under that contract, or as requested from time-to-time to a third party in accordance with contract provisions.
- 4.3 The contractor shall only engage in subcontracts and supply agreements in the name and ABN of the prequalified contractor engaged under that contract.

5.0 Maximum Revenue – Government sector

- 5.1 Attachment 2 is to be used to determine the Maximum Revenue in the Queensland Government sector (Maximum Revenue-Govt) in each financial year for contractors wishing to undertake government building projects. By knowing a contractor's NTA-Govt (refer section 2) and applying this value to the formula provided (refer Note 1 in Attachment 2), the contractor's Maximum Revenue-Govt can be calculated.
- 5.2 For Queensland Government sector consideration, a contractor's revenue may include all of the activities undertaken by the contractor in the Queensland Government sector regardless of whether these fall within the scope of 'building work' as defined in the QBCC Act.

Example only

Where a contractor has an NTA for licensing of \$400,000, of which \$60,000 comprises related entity loans (not recognised in the Queensland Government sector), the following would apply:

- this contractor may be entitled to undertake work up to a Maximum Revenue for licensing of \$9,777,771; and
- on deducting the \$60,000 of related entity loans, the contractor would have an NTA-Govt of \$340,000 and a Maximum Revenue-Govt of \$8,111,100.

- 5.3 Section 2.4 provides guidance on how contractors may seek to resolve any shortfall in the required NTA-Govt.
- 5.4 The Maximum Revenue-Govt of the contractor cannot exceed their Maximum Revenue for licensing⁴.

6.0 Contract Value

- 6.1 Generally, the Contract Value of government building projects shall be either the estimated value, or where known, the actual value of the contract.

⁴ i.e. the Maximum Revenue for the licensee as recorded in the QBCC's licensing register. In the case of a partnership, joint venture, or group of related companies, where all parties are licensed, the Maximum Revenue for licensing will be determined (for the purpose of a financial capacity assessment) by consolidating the respective licensee's Maximum Revenue for licensing (as recorded in the QBCC's licensing register).

6.2 In the case of multi-staged non-traditional forms of contract, this value will:

- a) at stage one, be the current estimated cost to complete the whole contract, not just the design and documentation work and early works packages to be undertaken at stage one; and
- b) at stage two, be the current estimated cost to complete the remaining part of the contract (note: this will exclude elements completed under stage one).

6.3 However, where this is not considered to be an accurate reflection of the anticipated expenditure under the contract, the project manager may need to consider another value. For non-traditional type contracts for construction management, where sub-contracts or trade packages are to be awarded under the contract directly to the Principal, then the Contract Value is to be calculated as the amount to be paid to the contractor/manager under the contract.

6.4 Where the contract duration (excluding the defects liability period) is greater than 52 weeks, the annualised contract value of a project is the “Contract Value” translated into an annual rate, by applying the following formula:

$$\frac{\text{Contract Value}}{\text{Contract Duration in Weeks}} \times 52$$

7.0 Maximum project value

7.1 The maximum project value a contractor is eligible to tender on or be awarded under the PQC System is referred to as the contractor’s ‘Maximum Annualised Contract Value’.

This value is based on consideration of both the contractor’s previous project experience and financial capacity by the PQC Registrar.

7.2 A contractor’s Maximum Annualised Contract Value is determined as being the lesser of:

- a) one-third of either the contractor’s Maximum Revenue-Govt or Maximum Revenue for licensing; whichever is the lesser (this is referred to as the One-Third Rule and reflects a contractor’s financial capacity under the PQC System) or
- b) the contractor’s Maximum Contract Value (i.e. project capability) as determined by the PQC Registrar, giving consideration to the contractor’s technical and managerial capabilities, experience and satisfactory performance on previous projects.

Example only (cont’d)

Following the example outlined in section 5.2, where a contractor has \$340,000 in NTA-Govt, the contractor would have a Maximum Revenue-Govt of \$8,111,100 (financial capacity).

Depending on the contractor’s demonstrated technical and managerial capabilities, documented experience and demonstrated satisfactory past performance, the contractor may be eligible for prequalification to a Maximum Contract Value (project capability) of say \$3,000,000 (refer section 7.2).

However, under the One-Third Rule (refer section 7.2), this contractor would be limited to undertake government building projects up to \$2,703,699 (calculated as one-third of \$8,111,100), due to its financial capacity being less than its project capability.

8.0 Exceeding allowable limits in the Government sector

- 8.1 The relevant government department Chief Executive Officer (or authorised delegate) may, in consideration of the relative risks to the State and at their absolute discretion, after consultation with Building Contract Management , Department of Housing and Public Works, approve a recommendation for inviting or contracting with a contractor who fails to meet requirements provided in this guideline.
- 8.2 Reasons for such failure may include, without limitation:
 - a) insufficient NTA-Govt
 - b) insufficient Current Ratio.
- 8.3 Any such invitation or acceptance may include, but not be limited to, the contractor offering to provide an additional unconditional undertaking to the State for the satisfactory performance of the contract. Any invitation under such conditions is made by the Principal without prejudice and without commitment, and entirely at the contractor's own risk.

9.0 Contractor financial capacity assessment process

- 9.1 The process whereby contractors are assessed for financial capacity is as follows:
 - a) contractors applying to the Government for PQC registration must do so on the Contractor PQC Application form providing, among other things, their Maximum Revenue for licensing (where applicable), and their Net Tangible Assets recognised by the Government (NTA-Govt) and Current Ratio – Government sector, calculated in accordance with the details provided in this guideline.
 - b) upon successful registration on the PQC System, the contractor will be provided with a Certificate of Prequalification (PQC) with an attached schedule confirming, among other things, the contractor's Maximum Annualised Contract Value.
 - c) any prequalified contractor tendering on a government building project with an estimated contract value in excess of \$1,000,000, and is subsequently identified as the preferred tenderer, will be subject to a formal financial capacity assessment in accordance with these guidelines and CWMF policy requirement 9.

A department will engage a financial assessment company from the whole-of-Government Professional Services Panel at the tender evaluation stage to determine a contractor's financial capacity to undertake a project.

The relevant department's tender section will forward a request by email to the financial assessment company to undertake a financial capacity assessment. The request needs to include certain information such as a description of the project and most accurate tender estimate/submitted tender price and level of government work underway or committed to by the contractor (as known by the department's tender section).

The financial assessment company will undertake this financial capacity assessment on the basis of the information provided by the relevant department's tender section, the

Queensland Building and Construction Commission⁵, the contractor's financial records and supplementary information (as outlined in Attachment 4), and any other data available to the financial assessment company.

- d) a request for a contractor to provide financial records will be made by the financial assessment company and responses are to be forwarded in confidence as directed within the timeframe specified in the request. Failure to comply with any request, made pursuant to the requirements set out in this document, may result in:
 - i) the financial assessment company considering that the contractor has failed to satisfy the financial capacity assessment requirements and/or
 - ii) the PQC Registrar considering that the contractor has breached the Conditions of Prequalification (PQC) and/or
 - iii) the Principal declining to consider or accept a tender from the contractor.
- e) assessments will be based upon:
 - i) the contractor's management accounts (i.e. Balance Sheet and Profit and Loss Statement) that are, as a minimum, no older than three months
 - ii) the contractor's most recent end of year financial accounts

Note: consolidated accounts may be requested for a partnership, joint venture, or group of related companies

 - iii) other supporting information (refer Attachment 4) provided by the contractor and any other data available to the financial assessment company.
- f) the financial assessment company is to review the financial records and discuss any issues or concerns (e.g. where clarification is required on certain information or where information required as part of the assessment has not been provided by the contractor) with the contractor, or the contractor's nominated representative. In this regard, the contractor may be required to provide more detailed information to the assessment company if requested.
- g) the financial assessment company will determine the contractor's financial capacity with respect to the subject building project, basing its assessment on the data available to it taking into account, but not limited to, such factors as:
 - i) the above requirements
 - ii) the 'going concern' convention, based on the assumption that the life of a business enterprise is indefinite with continued existence and not liquidation, tempered by the accounting doctrine of conservatism where legitimate and necessary
 - iii) concerns arising from any analysis of management accounts, end of year financial accounts, supporting documentation, and any other data available to the financial assessment company

⁵ A financial assessment company is to undertake a licence data check, including Maximum Revenue for licensing, by contacting the Queensland Building and Construction Commission at compliancepqc@qbcc.qld.gov.au.

- iv) the extent of the contractor's government and non-government project commitments (both underway and under contract) with respect to its capacity to deliver the proposed contract and with respect to its Maximum Revenue-Govt limit
 - v) the level of securities and retentions provided by the contractor. Where it is considered that these securities and retentions may be called up, the NTA-Govt of the contractor may be reduced by the amount, or portion, of such contingent liabilities
 - vi) concerns in relation to the contractor's ability to pay its creditors over 90 days.
- h) the financial assessment company will email a report (as per the report template prescribed by the Department of Housing and Public Works) to the requesting government department, outlining the outcome of the financial capacity assessment (which will be either a "pass", "pass with concerns" or a "fail"). A copy will also be provided to the PQC Registrar. The financial capacity assessment report has a validity period of 25 business days
- i) the requesting government department or the PQC Registrar may seek clarification on any aspects of the report from the financial assessment company. Importantly, in the case of a "pass with concerns" report, a department may need to seek additional information from the assessment company to fully understand the concern/s raised and the potential risk involved if wishing to engage with the contractor

In this regard, the assessment company is to include conditions in the report for a department to consider in relation to engaging the contractor, to mitigate the risk posed by the concerns raised in the report.

- j) if, in the view of the PQC Registrar or government department requesting the assessment, there are reasonable concerns regarding a contractor's financial capacity, the contractor may be requested to provide additional information to address such concerns
- k) in relation to (j) above, the contractor is to forward the additional information in confidence to the relevant party (as directed within the request) within the timeframe specified in the request
- l) only an officer or employee of a department, to which the provisions of the *Public Service Act 2008* and the *Public Sector Ethics Act 1994* apply, are to be provided with contractors' financial details
- m) based on financial information provided by the financial assessment company to the PQC Registrar, the financial details of the contractor's PQC registration will be amended accordingly and advice will be forwarded, or made available, to the contractor.

10.0 Right to information

- 10.1 The *Right to Information Act 2009* (RTI Act) provides members of the public with a legally enforceable right to access documents held by Queensland Government agencies.
- 10.2 The RTI Act requires that documents be disclosed upon request, unless the documents are exempt or, on balance, disclosure is contrary to the public interest.
- 10.3 Information contained in an application for prequalification, and registration details once an applicant is prequalified, are potentially subject to disclosure to third parties.

- 10.4 The State cannot guarantee that any information provided by an applicant/registrant, including information that is identified as commercial-in-confidence, will be protected from disclosure under the RTI Act.
- 10.5 Despite any other provision of the application and registration process, the State is entitled to publish on the Department of Housing and Public Works' website (www.hpw.qld.gov.au), or by any other means, the names and business addresses of trading entities registered on the PQC System.
- 10.6 For more information regarding the RTI Act, please contact the RTI Officer on (07) 3224 5245.

Attachment 1: Definition of a government building project

Government building project generally means a building project for a ‘government department’, as defined in the *Financial Accountability Act 2009*. A government building project must be owned by a government department on completion.

Work covered by this definition includes:

- a) the erection, establishment or construction of a building; or
- b) any maintenance of a building assessed as high risk/significant; or
- c) the repair, renovation, refurbishment, alteration, extension or improvement of a building or maintenance of a building combined with any of these works; or
- d) the demolition or removal of a building; or
- e) any site work (defined as building work under the *Queensland Building and Construction Commission Act 1991*) related to work of any kind associated with a) to d) above as a separate contract in itself; or
- f) travelators and escalators, water supply, sewerage or drainage under installation or supply and installation contracts associated with a) to d) above as a separate contract in itself, the provision of services generally (including but not limited to power, lighting, communications, security systems, fire, heating, ventilation, air conditioning, lifts), but excludes:
- g) service maintenance contracts associated with a building;
- h) the construction, maintenance or repair of a road under the Land Act 1994;
- i) the construction, maintenance or repair of a bridge;
- j) the construction, maintenance or repair of railway tracks, signals or associated structures;
- k) the construction, maintenance or repair of harbours, wharfs and other marine structures not related to land based building work; and
- l) the construction, maintenance or repair of a dam.

The majority of government building projects involves construction of new buildings, extensions to buildings or major refurbishments to existing buildings.

Notwithstanding, this definition should be taken as a guide only and is not exhaustive. This definition does not capture grants to organisations that are external to government departments, although government departments making grants to such organisations may, at their discretion and after receiving advice from the Department of Housing and Public Works, attach conditions to a grant to give effect to specific elements of the Capital Works Management Framework.

Enquiries on the applicability to particular government building projects should be directed to the Department of Housing and Public Works.

Attachment 2: Determining Maximum Revenue in the Government sector (Maximum Revenue-Govt)

The calculation of Maximum Revenue-Govt is based on the *Queensland Building and Construction Commission (Minimum Financial Requirements) Regulation 2018*.

Contractors unsure about calculating their Maximum Revenue-Govt, should contact the PQC Registrar on 1800 072 621 or email PQCRegistrar@hpw.qld.gov.au.

Criteria		Category 1	Category 2	Category 3	Category 4	Category 5	Category 6	Category 7
Maximum Revenue in the Queensland Government sector (Maximum Revenue-Govt) ¹	Min (a) Max (b)	\$800,001 ² - \$3,000,000	\$3,000,001 - \$12,000,000	\$12,000,001 - \$30,000,000	\$30,000,001 - \$60,000,000	\$60,000,001 - \$120,000,000	\$120,000,001 - \$240,000,000	>\$240M NTA-Govt x 16.67
Net Tangible Assets recognised by the Queensland Government (NTA-Govt)	Min (c) Max (d)	\$46,001 - \$156,000	\$156,001 - \$480,000	\$480,001 - \$1,200,000	\$1,200,001 - \$2,400,000	\$2,400,001 - \$4,800,000	\$4,800,001 - \$14,400,000	>\$14.4M

Notes

¹ To determine the level of Maximum Revenue-Govt between minimum and maximum NTA-Govt values expressed within Categories 1 to 7, a calculator is available at <http://www.qbcc.qld.gov.au/mr-nta-calculator>.

For example: Where a contractor has \$340,000 in NTA-Govt (refer Category 2 above), the contractor would have an Maximum Revenue-Govt of \$8,111,100.

² Under the One-Third Rule (refer 8.3) the Maximum Revenue-Govt minimum amount for registration on the PQC System is \$3M (being three times \$1M) and the minimum NTA-Govt amount is \$156,000.

Attachment 3: Terminology and links

A guide to the terms used in this document is provided below.

Annualised Contract Value

The Annualised Contract Value of a project, where the contract duration (excluding any design, documentation or defects liability period) is greater than 52 weeks, is the ‘Contract Value’ translated into an annual rate for comparative purposes.

Capital Works Management Framework (CWMF)

The *Capital Works Management Framework* is the Queensland Government's key policy for managing risks in the planning and delivery of government building projects. It identifies the major risk areas and sets out the steps that must be taken to manage those risks.

The *Capital Works Management Framework* gives effect to the whole-of-Government Prequalification (PQC) System for building industry contractors and consultants seeking to undertake contracts and commissions associated with government building projects.

For further information refer to www.hpw.qld.gov.au.

Contingent liability

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because:

- a) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
- b) the amount of the obligation cannot be measured with sufficient reliability.

(Source: Australian Accounting Standards Board 137 Provisions, Contingent Liabilities and Contingent Assets)

Contractor

Contractor means any individual, company or other person (including partnerships, joint ventures, and groups of related companies) that tenders to, or contracts directly with, a government department on a government building project, irrespective of whether or not the nature of the work requires the person/entity to be licensed under the *Queensland Building and Construction Commission Act 1991*.

Contract Value

Generally, the ‘Contract Value’ of government building projects shall be either the estimated value, or where known, the actual value of the contract (refer section 6.0).

Current Ratio

Formula: (current assets) / (current liabilities)

This needs to be read in relation to section 3.0.

Deed of Guarantee and Indemnity

A deed whereby the guarantor agrees to guarantee and indemnify the State and creditors in respect of the liabilities of the contractor.

A copy of an approved example of a form of Deed of Guarantee and Indemnity can be provided by the PQC Registrar on request.

Maximum Annualised Contract Value

The Maximum Annualised Contract Value reflects the highest value project that a contractor is allowed to tender for or be awarded under the PQC System, and shall be the lesser of:

- a) one-third of either the contractor's Maximum Revenue-Govt or the Maximum Revenue for licensing; whichever is the lesser or
- the Maximum Contract Value (as below), for which the contractor is prequalified under the PQC System.

Maximum Contract Value

The Maximum Contract Value is determined by the PQC Registrar and is based on the contractor's technical and managerial capabilities and experience, and satisfactory performance on previous projects.

Maximum Revenue-Govt

The maximum revenue a contractor may earn in each financial year in the Queensland Government sector as determined by using the table in Attachment 2 taking into account the NTA-Govt value (refer section 5.0).

Maximum Revenue for licensing

The maximum revenue a licensed entity may earn in each financial year as determined by the QBCC.

NTA-licensing

The contractor's Net Tangible Assets recognised by the QBCC for licensing purposes.

NTA-Govt

The contractor's Net Tangible Assets, recognised by the Government for the PQC System (refer section 2.0).

One Third Rule

A third of the contractor's Maximum Revenue-Govt or the Maximum Revenue for licensing, whichever is the lesser value.

Prequalification (PQC) System

The Prequalification (PQC) System supports the *Capital Works Management Framework* (CWMF) and *Maintenance Management Framework* (MMF) by providing a central register of prequalified building contractors and consultants for government building projects.

Project Bank Accounts

Project Bank Accounts (PBAs) aim to safeguard progress payments, protect retention monies and allow for more timely payments to subcontractors on certain government building projects. Projects tendered by the Queensland Government use PBAs on building and construction projects (excluding engineering projects) valued between \$1 million and \$10 million (including GST).

Queensland Building and Construction Commission (QBCC)

The Queensland Building and Construction Commission (QBCC) is a statutory authority established under the *Queensland Building and Construction Commission Act 1991*, which, among other things, licenses building industry contractors (refer www.qbcc.qld.gov.au).

Attachment 4: Financial assessment – supporting information

Supporting information to be provided by a contractor in order for a financial assessment company to perform a financial capacity assessment includes (but is not limited to) the following:

- the amount attributable to revenue earned for work carried out for the Queensland Government, and the amount attributable to revenue earned for work other than for the Queensland Government (identified separately)
- the amount of any dividends paid during the year to date
- whether any assets recorded in the balance sheet relate to a Project Bank Account and are amounts held on trust for a subcontractor or other person, or are amounts held in the retention trust account or disputed funds trust account (if so, please specify the amounts)
- the amount allowed for bad or doubtful debts relating to debtors (if any)
- details of impairment of any assets or provisions allowed
- amounts provided for securities or retentions to which recourse has been claimed or threatened or is likely to be claimed or threatened
- in relation to real property listed for sale on the market, and classified as a current asset in accounts, details of the real property (i.e. location, amount it is valued at in the books, when it was placed on the market, with whom it has been listed and the amount it has been listed for, how long the real property has been classified as a current asset)
- details of any debtors that are related entities
- details of any term deposits held as security for bank guarantees provided by the contractor
- in relation to an Asset Revaluation Reserve resulting in a material increase greater than 10% in the asset position of the contractor, a copy of the valuation/s from a registered valuer supporting the revaluation/s. In this regard, note that asset revaluation reserves can only be derived from non-current assets
- aged listing of trade debtors and trade creditors which must distinguish between retentions and securities, and other debtors and creditors. Alternatively, the contractor may provide two lists, one for securities and retentions, and one for the balance of debtors and creditors
- the amount relating to debtors 90 days and over that are subject to a payment arrangement that has been agreed to by a trade debtor or where the trade debtor is any Government entity (supporting evidence of such is required)
- aged listing of Work in Progress (WIP)
- list of any bank guarantees provided by the contractor, detailing to whom they were provided, the amount of the guarantee, when they were provided, and to identify if there is any risk of them being called up
- details including the value and percentage complete of any building work for the Queensland Government, which is underway or under contract
- details including the value and percentage complete of any building work other than for the Queensland Government, which is underway or under contract

- details of any available funding facilities including type (e.g. overdraft, bank guarantees, loans and surety bonds), limit of facility and amount utilised
- details of any threatened or actual proceedings in a court or tribunal, or an adjudication that the contractor is party to
- details of any trusts the contractor is trustee or manager for (including management accounts for such trusts)
- details of any breach of loan covenant by the contractor, including notices of breach of loan covenants by related entities where the relevant financial institution has a charge over the assets of the contractor
- details of any payment arrangements with trade creditors, the Australian Tax Office, or Office of State Revenue
- if the contractor is part of a group of companies, details of the structure of the group
- if loans from related entities, subsidiaries or associated entities are treated as non-current liabilities, evidence in the form of minutes of a meeting of directors or a stamped loan agreement detailing when the loan is repayable. The asset accounts of the relevant related entity, subsidiary or associated entity must be similarly classified and provided
- if the contractor operates in a partnership, joint venture, or group of related companies, details of the arrangement (including the information outlined above relative to the partnership, joint venture or group of related companies) and whether the entities are joint and severally liable or whether liability is limited and how. Note: Consolidated accounts may be requested by a financial assessment company.

Important Notes:

In addition to the supporting information outlined in this attachment, a contractor, or in the case of a company, a director of the company, will be required to provide a signed declaration that (among other things) all information provided to a financial assessment company reflects a true and fair view of their financial position. In the case of a partnership, joint venture, or group of related companies, a declaration must be signed for each separate entity.

Financial statements must comply with all applicable Australian Accounting Standards.

If a contractor is to be subject to a financial capacity assessment, a financial assessment company will forward an email to the contractor detailing the required financial information, including a declaration form to be signed by the contractor.