BUILD STATUS

<table>
<thead>
<tr>
<th>Version</th>
<th>Date</th>
<th>Reason</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>1/12/2016</td>
<td>Initial version Department of Finance</td>
</tr>
<tr>
<td>1.1</td>
<td>1/06/2017</td>
<td>General improvement to document</td>
</tr>
<tr>
<td>1.2</td>
<td>1/12/2019</td>
<td>Rebranded from Building Management and Works to the Department of Finance. Addition of a clause relating to the ongoing monitoring of prequalified contractors’ financial capacity. Changes to format, layout and grammar.</td>
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<tr>
<td>1.3</td>
<td>1/5/2020</td>
<td>Addition of clause 1.5(h) relating to the sharing of information with other government agencies.</td>
</tr>
<tr>
<td>1.4</td>
<td>22/5/2020</td>
<td>New clauses 5.8 and 5.9 relating to COVID-19 initiatives to speed up the tender evaluation process</td>
</tr>
</tbody>
</table>

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ENQUIRIES

Any enquiries relating to the subject matter contained in this document can be directed to:

Email: BMWBusinessRisk@finance.wa.gov.au
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1 INTRODUCTION

1.1 The Department of Finance (Finance) assesses the financial viability and capacity of contractors through the conduct of business risk assessments for prequalification and tender evaluation purposes.

1.2 A business risk assessment is a due diligence process to ascertain the degree to which Finance will be exposed to financial and other risks by either:

(a) prequalifying a contractor at a particular level under the Builders Prequalification Scheme; or
(b) entering into a contract with a contractor primarily for construct-only contracts for non-residential buildings (including alterations, additions, demolitions and fit outs).

1.3 Finance initiates a business risk assessment whenever it is deemed necessary, including:

(a) at the time a contractor applies for prequalification;
(b) at the time a contractor applies for prequalification renewal;
(c) on preferred respondents or tenderers;
(d) prior to the award of any contract over $500,000 (GST inclusive); or
(e) at the discretion of Finance.

1.4 Business risk assessments form a component of the evaluation process for a prequalification application, prequalification renewal and tender evaluation.

1.5 Finance reserves the right to:

(a) undertake financial assessments on contractors as required;
(b) provide an exemption from conducting a business risk assessment for certain contracts;
(c) engage external service providers to conduct a business risk assessment;
(d) obtain direct and third-party information to assist with conducting a business risk assessment;
(e) utilise business risk assessments for other forms of procurement or other types of construction works;
(f) determine the risk rating based on information available to Finance;
(g) impose appropriate risk mitigation strategies; or
(h) share information with other government agencies, including details associated with its assessment of contractor performance and capability.

2 FINANCIAL INFORMATION REQUIREMENTS

2.1 A contractor must provide the following information:

(a) Financial reports: Previous three years’ financial reports which are prepared and signed by a qualified Accountant and a Director (unless they are already held by Finance);
(b) Current Management Accounts: Current management accounts which are no
more than three months old and certified by a Director as being true and correct;

(c) **Aged Creditors’ Schedules:** Aged creditors’ schedules as at the reporting dates of the latest financial report and current management accounts. If 5% of total creditors are outstanding for more than 60 days, explanations are required; and

(d) **Information on workload (details of current projects, i.e. contracts with their values (GST inclusive) start dates, percentage completed to date and anticipated completion date) is also required when the assessment is done as part of a tender process or on request by Finance.**

The following deadlines for financial reports are:

(a) 30 November for financial reports with a 30 June year end; or

(b) 31 May for financial reports with a 31 December year end.

2.2 If a contractor fails to submit its financial reports, when requested by Finance, by the due date, the business risk assessment may be recorded as ‘high risk’.

2.3 The audited financial report, financial report and current management accounts must contain the following:

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Statement of Comprehensive Income (or Profit and Loss Statement)</td>
<td>Statement of Comprehensive Income (or Profit and Loss Statement)</td>
<td>Set of summarised accounting data for a Profit and Loss Statement and Balance Sheet</td>
</tr>
<tr>
<td>Statement of Financial Position (or Balance Sheet)</td>
<td>Statement of Financial Position (or Balance Sheet)</td>
<td>These accounts must have balances for current assets, non-current assets, total assets, current liabilities, non-current liabilities, total liabilities, equity, and disclosing details as per section 2.4</td>
</tr>
<tr>
<td>Statement of Changes in Equity</td>
<td>Notes to the Financial Statements</td>
<td>Signed Director’s Certification (including name of Director and certified as being true and correct, (i.e. ‘deemed to be true and correct’ written on the statements)</td>
</tr>
<tr>
<td>Statement of Cash Flows</td>
<td>Signed Director’s Declaration</td>
<td>Signed Auditor’s Report (including name, signature and the professional qualification of the Accountant who prepared the financial report)</td>
</tr>
<tr>
<td>Notes to the Financial Statements</td>
<td>Signed Accountant’s Compilation Report (including name, signature and the professional qualification of the Accountant who prepared the financial report)</td>
<td></td>
</tr>
<tr>
<td>Signed Director’s Declaration</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Signed Auditor’s Report (including name, qualification and signature of auditor who audited the financial report)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.4 The audited financial report, financial report and current management accounts must disclose all the following information;

(a) cost of goods sold statement;

(b) all intangible assets;

(c) all shareholder loans, related entity loans, related entity investments, director loans, units in related trusts, unpaid beneficiary entitlements; and

(d) all shares not listed on the Australian Stock Exchange.
2.5 The audited financial report, financial report and current management accounts should be audited and/or prepared by a natural person who meets the following criteria:

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>Qualified Accountant who holds membership with either the Institute of Chartered Accountants Australia New Zealand (CA ANZ), Certified Practising Accountants Australia (CPA Australia) or Institute of Public Accountants (IPA)</td>
<td>Qualified Accountant who holds membership with either the Institute of Chartered Accountants Australia New Zealand (CA ANZ), Certified Practising Accountants Australia (CPA Australia) or Institute of Public Accountants (IPA)</td>
<td>Prepared or generated internally based on information extracted from the accounting system</td>
</tr>
</tbody>
</table>

2.6 Finance prefers audited financial reports for Level 5 prequalification.

2.7 Financial reports, management accounts and financial information should be in the contractor's own right to ensure that the financial performance and position of the contractor can be assessed appropriately.

2.8 Finance will only consider consolidated financial reports when:

(a) the contractor does not prepare their own financial reports;

(b) the contractor provides the last three years' turnover information which is signed by both a qualified Accountant and a Director to assist with the calculation of the maximum aggregate contract value (MACV), current management accounts that are no more than three months old and corresponding aged creditors schedule; and

(c) the contractor nominates a suitable guarantor to guarantee the performance of the contractor throughout the term of prequalification or contract.

2.9 If the contractor is a trustee, the financial information assessed will be those of the trust. A copy of the Trust Deed and any amendments to the Trust Deed will be required, unless it is already held by Finance.

2.10 A contractor who has been registered for three years or more must provide all financial information for the last three years for business risk assessment purposes, unless an exemption is provided by Finance.

2.11 If the contractor has been trading for less than three years:

(a) one year's financial report may be considered acceptable if applying for Level 1 or Level 2 prequalification or tender;

(b) two years' financial reports may be considered acceptable if applying for Level 3, 4 or 5 prequalification or tender.
3. FINANCIAL CRITERIA AND RISK RATINGS

3.1 The three main financial criteria used for business risk assessments are provided below:

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Formula (prequalification)</th>
<th>Formula (tender)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted Net Tangible Assets ratio (minimum requirement is 5%)</td>
<td>Adjusted Net Tangible Assets divided by Turnover</td>
<td>Adjusted Net Tangible Assets divided by Turnover</td>
</tr>
<tr>
<td>Adjusted Working Capital ratio (minimum requirement is 10%)</td>
<td>Adjusted Working Capital divided by the Maximum Prequalification Value</td>
<td>Adjusted Working Capital divided by the Contract Value</td>
</tr>
<tr>
<td>Maximum Aggregate Contract Value (MACV)</td>
<td>The MACV is based on the highest turnover in the last three years, plus a 30% uplift. It is an aggregate contract value which the contractor should not exceed at tender stage</td>
<td>The MACV is assessed on the contractor’s current workload information</td>
</tr>
</tbody>
</table>

3.2 Certain assets and liabilities have been determined as being disallowed as they cannot be relied upon for the purpose of supporting the contractor in the event of default. These assets and liabilities are adjusted for the following items:

(a) all intangible assets;
(b) all shareholder loans, related entity loans, related entity investments, units in related trusts, director loans, and unpaid beneficiary entitlements. All related parties will be assessed in accordance with the Australian Accounting Standards; and
(c) all shares not listed on the Australian Stock Exchange.

3.3 Finance will also consider a number of other matters as part of the business risk assessment. These include, but are not limited to:

(a) reviewing general financial information, such as working capital, net tangible assets, profit levels, gearing, gross and net profit margin ratios, and historical performance (both on face values and adjusted values);
(b) reviewing past financial performance and references;
(c) reviewing current management accounts that are no more than three months old;
(d) reviewing aged creditors schedules to ensure payment performance history does not exceed the payment terms outlined in the \textit{Construction Contract Act 2004};
(e) reviewing current projects (workload) for the next 12 months;
(f) reviewing reports obtained from external financial service providers that assess a contractor’s financial status;
(g) conducting background searches of Worksafe WA’s Prosecution Summaries database to identify if there have been any successful prosecutions;
(h) conducting other relevant checks to confirm the existence and current status of the contractor (including Australian Securities and Investments Commission, Australian Business Register and Western Australian Register of Builders);
(i) reviewing information obtained from the Office of State Revenue (OSR) regarding outstanding OSR obligations;
(j) reviewing other supplementary financial and non-financial information that is provided by the contractor at the request of Finance; or
(k) reviewing (if applicable) the nominated guarantor’s financial information.

3.4 The three possible risk ratings in a business risk assessment are:

(a) 'low risk';
(b) 'medium risk'; or
(c) 'high risk'.

3.5 In such circumstances where Finance determines that there are matters that indicate that the contractor is in financial difficulties or the existence of other matters of concern, Finance reserves the right to:

(a) require the contractor to nominate an approved guarantor;
(b) place a restriction on the value (in the aggregate or individual) of contracts that the contractor can be awarded;
(c) impose any other risk mitigation strategy that Finance determines is required; or
(d) assess the contractor as ‘high risk’.

3.6 A contractor who has been assessed as ‘high risk’ will generally be declined prequalification and will generally not be awarded a contract.

4 BUSINESS RISK ASSESSMENT FOR PREQUALIFICATION PURPOSES

4.1 Business risk assessments for prequalification purposes assist with the evaluation of prequalification applications and monitoring of contractors’ financial capacity.

4.2 Business risk assessments for prequalification will be conducted, at a minimum, as part of the prequalification application and renewal process. In addition, when a business risk assessment is conducted for tender purposes an analysis will be conducted to determine whether the contractor continues to meet the financial requirements associated with its current prequalification level (see section 6).

4.3 The two financial criteria, based on the contractor’s latest financial year report are:

(a) equal to or greater than 5% of adjusted net tangible assets to turnover ratio; and
(b) equal to or greater than 10% of adjusted working capital to maximum prequalification value ratio.

4.4 The MACV cap will be set by Finance based on the highest turnover in the last three years plus a 30% uplift.

4.5 A contractor will be assessed as ‘low risk’ when:

(a) the adjusted net tangible assets to turnover ratio is met;
(b) the adjusted working capital to maximum prequalification value ratio is met; and
(c) there are no adverse observations from a Finance review of other matters in accordance with section 3.3.
4.6 A contractor will be assessed as ‘high risk’ and then downgraded to ‘medium risk’ when:

(a) the contractor fails to meet the adjusted net tangible assets to turnover ratio and/or the adjusted working capital to maximum prequalification value ratio, and the contractor can nominate a suitable guarantor. The guarantor must be able to demonstrate compliance in accordance with section 7;

(b) the contractor submits consolidated financial reports (including the contractor’s turnover information) for the last three financial years, contractor’s current management accounts that are no more than three months old and can nominate a suitable guarantor. The guarantor must be able to demonstrate compliance in accordance with section 7;

(c) the contractor fails to meet the adjusted working capital to maximum prequalification value ratio but accepts a limit on the value of individual contracts that can be awarded (at ten times the contractor’s demonstrated adjusted working capital). This risk mitigating strategy is known as the Maximum Contract Value (MCV) and is only applicable when the contractor passes the adjusted net tangible assets to turnover ratio but fails the adjusted working capital to maximum prequalification ratio; or

(d) adverse observations from a Finance review of other matters in accordance with section 3.3 can be mitigated with appropriate risk mitigation strategies.

4.7 A contractor will be assessed as ‘high risk’ when:

(a) requested financial and other information is not provided by the contractor;

(b) the contractor is unable to nominate a suitable guarantor when it fails to meet the adjusted net tangible assets to turnover ratio and/or the adjusted working capital to maximum prequalification value ratio; or

(c) adverse observations from a Finance review of other matters in accordance with section 3.3 cannot be mitigated with appropriate risk mitigation strategies.

5  BUSINESS RISK ASSESSMENT FOR TENDER PURPOSES

5.1 Business risk assessments are conducted as part of the tender evaluation process for Finance construction contracts valued at over $500,000.

5.2 The two financial criteria, based on the contractor’s latest financial year report are:

(a) equal to or greater than 5% of adjusted net tangible assets to turnover ratio; and

(b) equal to or greater than 10% of adjusted working capital to contract value ratio.

5.3 The contractor should not exceed the set MACV at the time of tender assessment taking into account the tender under consideration.

5.4 Where the contractor is not prequalified with Finance, the MACV cap will be set by Finance based on the highest turnover in the last three years, plus a 30% uplift.

5.5 A contractor will be assessed as ‘low risk’ when:

(a) the adjusted net tangible assets to turnover ratio is met;

(b) the adjusted working capital to contract value ratio is met;

(c) the MACV requirement is not exceeded; and
(d) there are no adverse observations from a Finance review of other matters in accordance with section 3.3.

5.6 A contractor will be assessed as 'high risk' and then downgraded to 'medium risk' when:

(a) the contractor fails to meet the adjusted net tangible assets to turnover ratio and/or adjusted working capital to contract value ratio, and the contractor can nominate a suitable guarantor. The guarantor must be able to demonstrate compliance in accordance with section 7;

(b) the contractor submits consolidated financial reports (including the contractor’s turnover information) for the last three financial years, contractor’s current management accounts that are no more than three months old and can nominate a suitable guarantor. The guarantor must be able to demonstrate compliance in accordance with section 7;

(c) the MACV is exceeded and the contractor can demonstrate to the satisfaction of Finance that it has sufficient capable personnel and other necessary resources available to completely fulfil the obligations of the contract (by way of providing written justification) and to nominate a suitable guarantor. The guarantor must be able to demonstrate compliance in accordance with section 7; or

(d) adverse observations from a Finance review of other matters in accordance with section 3.3 can be mitigated with appropriate risk mitigation strategies.

5.7 A contractor will be assessed as 'high risk' when:

(a) requested financial and other information are not provided by the contractor;

(b) the contractor is unable to nominate a suitable guarantor when it fails to meet the adjusted net tangible assets to turnover ratio and/or adjusted working capital to contract value ratio;

(c) the MACV is exceeded and the contractor is unable to demonstrate to the satisfaction of Finance that it has sufficient capable personnel and other necessary resources available to completely fulfil the obligations of the contract (by way of providing written justification); or

(d) adverse observations from a Finance review of other matters in accordance with section 3.3 cannot be mitigated with appropriate risk mitigation strategies.

5.8 Finance may rely on elements of previous business risk assessments completed within the last six months where it considers it is appropriate to do so.

5.9 Contractors may request a business risk assessment proactively, to enable Finance’s future tender evaluation to be expedited.

6 ONGOING REVIEW OF PREQUALIFIED FINANCIAL CAPACITY

6.1 Where a contractor is prequalified with Finance, and when a business risk assessment for tender purposes is undertaken, analysis will be undertaken to confirm it has the financial capability to remain at its current approved prequalification level. Information on this process is included in Finance’s Builders Prequalification Scheme document.
7 PROVISION OF APPROVED GUARANTORS

7.1 Finance will request the nomination of a suitable guarantor if the contractor:

(a) fails the adjusted net tangible assets to turnover ratio;
(b) fails the adjusted working capital to contract value/maximum prequalification value ratio;
(c) exceeds or will exceed the MACV;
(d) submits consolidated financial reports; or
(e) has other adverse observations in accordance with section 3.3 and it is identified as a suitable risk mitigation strategy.

7.2 If a guarantor is required as per section 7.1 then Finance will require the guarantor of the:

(a) prequalified contractor to provide a deed of guarantee for the duration of prequalification plus three months. The three-month period is designed to provide a contingency to allow for instances where the contractor has applied for its prequalification status to be renewed and the assessment of this renewal has not concluded by the prequalification expiry date; or
(b) non-prequalified contractor to provide a contract specific deed of guarantee for the duration of the contract being awarded.

7.3 All suitable guarantors must agree to provide the deed of guarantee on the terms proposed by Finance. Deeds of cross guarantees (including Australian Securities and Investments Commission deeds) are not accepted by Finance.

7.4 Finance must be able to identify the guarantor(s) that hold the required level of assets.

7.5 If the guarantor is a trustee, the financial information assessed will be those of the trust. A copy of the Trust Deed and any amendments to the Trust Deed must be provided (unless it is already held by Finance).

7.6 The contractor must provide the proposed guarantor’s latest financial report which is prepared and signed by a qualified Accountant and a Director.

7.7 Corporate guarantors are preferred by Finance and must be capable of fulfilling the obligations of the deed. Corporate guarantors may include trust structures where the trustee is a natural person.

7.8 The following requirements must be met for a suitable corporate guarantor to be accepted by Finance:

<table>
<thead>
<tr>
<th>Prequalification</th>
<th>Tender</th>
</tr>
</thead>
<tbody>
<tr>
<td>The guarantor has equal to or greater than 5% adjusted net tangible assets to maximum prequalification value</td>
<td>The guarantor has equal to or greater than 10% adjusted net tangible assets to contract value, for the contract being awarded</td>
</tr>
<tr>
<td>There are no adverse observations relating to the guarantor from a Finance review of other matters in accordance with section 3.3</td>
<td>There are no adverse observations relating to the guarantor from a Finance review of other matters in accordance with section 3.3</td>
</tr>
</tbody>
</table>

7.9 If a corporate guarantor cannot be provided, the guarantor can be a natural person or
persons (such as the Company Director). The guarantor(s) will need to demonstrate to the satisfaction of Finance that he/she holds unencumbered real property holdings with a market valuation no more than 12 months old.

7.10 The following requirements must be met for a suitable natural person guarantor to be accepted by Finance:

<table>
<thead>
<tr>
<th>Prequalification</th>
<th>Tender</th>
</tr>
</thead>
<tbody>
<tr>
<td>The guarantor holds unencumbered real property holdings valued at equal to or greater than 5% of the maximum prequalification value</td>
<td>The guarantor holds unencumbered real property holdings valued at equal to or greater than 10% of the contract value, for the contract being awarded</td>
</tr>
</tbody>
</table>

7.11 The Department reserves the right not to accept a guarantee from a natural person where the Department believes that it will not, for public policy reasons, call on the guarantee due to the nature of the individual.