QUEENSLAND BUILDING AND CONSTRUCTION COMMISSION

GUIDE TO MINIMUM FINANCIAL REQUIREMENTS (MFR) AND ANNUAL REPORTING

VERSION 1

JULY 2024

CONTENTS

INTRODUCTION

On 1 January 2019 new laws began regarding minimum financial requirements (MFR) and annual reporting for QBCC licensees.

These laws were introduced as part of a suite of law reforms to build a stronger, fairer construction industry in Queensland. An industry that is financially sustainable provides a strong industry for the future. The role of the QBCC is to implement the laws to achieve a balance between the interests of consumers and contractors. The QBCC's regulatory strategy takes into account that balance and the objective of the laws to achieve a financially sustainable industry.

This guide is intended to assist licensees to understand MFR and annual reporting obligations. Additional information is available on the QBCC website.

MINIMUM FINANCIAL REQUIREMENTS (MFR)

Why do we have the Minimum Financial Requirements?

The MFR Regulation is like other laws in place – there is a clear intention behind the requirements being enforced.

The objectives of the financial requirements are to:

- Promote financially healthy businesses in the Queensland building and construction industry, and encourage professional business practices;
- Reduce the effects of financial failure, liquidations and bankruptcy within the industry;
- Assist with getting everyone in the supply chain paid for their work.

Why does the QBCC need my financial information?

The QBCC requires financial information to be provided to help identify licensees who may not be operating a financially sustainable business, which consequently places subcontractors, suppliers and consumers at financial risk. Access to this information allows the QBCC to work with those licensees to meet the MFR rules, and where appropriate, take licensing and other regulatory action.

Aside from being a legislative requirement, by regularly reviewing your financial position, it can help to achieve better financial outcomes, makes you aware ASAP if you are experiencing any financial issues that require immediate attention, and assists to identify areas of growth and improvement. If you are aware of your financial circumstances, it is easier and quicker to manage any problems.

Who needs to meet the Minimum Financial Requirements?

Licensees who hold a contractor-type licence (individual contractor or company licence) are required to show they can meet the Minimum Financial Requirements to obtain and maintain a QBCC licence. Contractor-type licences enable you to contract with homeowners or developers, and also make you responsible for the payment of suppliers and subcontractors. Therefore, it is important to ensure that you are financially viable.

The QBCC has different licence types to cover different roles and responsibilities in the building industry.	LICENCE TYPES			
	OCCUPATIONAL	NOMINEE SUPERVISOR	SITE SUPERVISOR	CONTRACTOR
Must comply with MFR	No	No	No	Yes
Enter into building contracts for building work	No	No	No	Yes
Supervise work within the scope of work for their licence class	Yes	Yes	Yes	Yes
Be a nominee for a building company	No	Yes	No	Yes

Who does not have to meet the Minimum Financial Requirements?

The following licensees and applicants do not have to meet any MFR obligations

- Nominee supervisor
- Site supervisor
- Occupational licensees
- Building certifiers
- Pool safety inspectors

Financial reporting exemptions may apply for applicants or licensees who have a current professional indemnity insurance policy, and ONLY seek or hold a contractor licence in one or more of the classes below:

- Builder Project Management Services
- Building Design – Low Rise
- Building Design – Medium Rise
- Building Design – Open
- Hydraulic Services Design
- Site Classifier
- Fire protection – water-based fire system stream – design
- Fire protection – electrical-design-fire alarm systems

If the professional indemnity insurance held expires or is not renewed, then these licensees are required to meet the financial requirements.

KEY TERMS

Relevant contractor-type licensees are required to meet certain financial obligations such as holding sufficient Net Tangible Assets to cover the work you are carrying out, and maintaining a Current Ratio of 1:1 current assets to current liabilities.

You must also understand the approved Maximum Revenue amount set by QBCC and the actual revenue you are earning. This section explains what each of these terms mean, to assist licensees better understand their obligations.

Net Tangible Assets

Net Tangible Assets (NTA), means the total assets of a business:

- less any intangible assets such as goodwill, borrowing costs, patents, and trademarks;
- less any disallowed assets, such as jet skis, boats, racehorses, personal furniture, collector's items;
- less all liabilities.

The net tangible asset calculation shows what assets (or money) the licensee would have once they pay all of their liabilities (or bills). Basically, if the licensee had to close up, sell all of its' things and pay all of its' bills, the NTA is what is left over.

The net tangible requirement is important as it shows the working capital you need to run your business.

What is an asset?

Acceptable assets are things you own in your own name. If you have a company licence, these assets must in the company's name to be used for the company licence.

Acceptable assets include:

- Cash;
- Work in progress;
- Money held in a project bank account that you are entitled to;
- Retention money you are entitled to;
- Registered motor vehicles;
- Real estate;
- Tools of trade;
- Plant and Equipment;
- Stock on hand;
- Some loans you have given out to related entities;
- Some money owing to you from clients;
- Shares in publicly listed (ASX) companies.

What is not an accepted asset?

Disallowed assets include:

- Racehorses;
- Paintings, stamps or coins;
- Personal furniture (household contents);
- Off road motorbikes;
- Quad bikes;
- Golf buggies;
- Jet skis;
- Boats;
- Aircraft (including drones);
- Shares in unlisted companies;
- Money owing to you if it is disputed or subject to legal or court proceedings;
- 100% of money owing to you from a client if it is more than 12 months old;
- 50% of money owing to you from a client if it is between 6 and 12 months old;
- Goodwill (the value or reputation of a business);
- Franchise fees;
- Deferred Tax Assets (an item that reduces the business's taxable income in the future, usually when a business overpays its' taxes and will eventually be returned to the business in the form of tax relief);
- Barter dollars;
- Assets held by someone else (held on trust for a beneficiary other than yourself);
- Superannuation if you cannot access it immediately (if you are not retired);
- Life insurance policy benefits;
- Cryptocurrency;
- Trademarks or patents;
- Formation expenses (expenses you pay to set up business);
- Borrowing costs (interest and costs that a business incurs in connection with borrowing money);
- Intellectual Property.

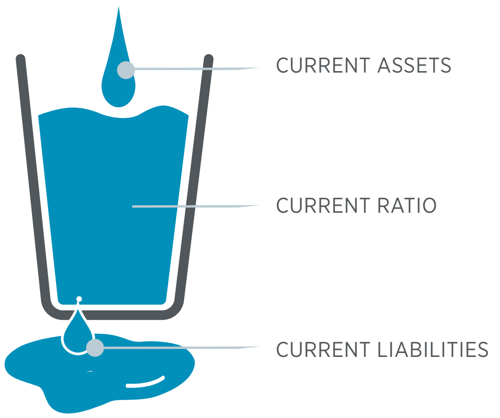
What is a liability?

Liabilities are debts you owe to others. All liabilities must be included in calculations. This includes any debts or obligations you must pay or settle within a certain period of time or pay on demand.

Examples of liabilities include:

- Mortgage owing on property;
- Credit card debts;
- Car finance debts;
- Trade creditors ;
- Taxation debts;
- Overdraft;
- Any deficiency in a trust for which you are trustee;
- The full amount of any loan you owe if it is in default.

What is a Current Ratio?



Current Ratio is worked out by comparing a licensee's current assets to its current liabilities. This helps to determine the business's financial viability. The current ratio is your current assets divided by your current liabilities and must be at least 1:1. For every $1 spent, the licensee needs to have made $1 to cover it. $1 of current assets for every $1 of current liabilities is the minimum we expect for a healthy business.

EXAMPLE:

ABC Company has $52,000 in current assets, compared to $30,000 in current liabilites.

To figure out the company's current ratio:

Current assets ÷ Current liabilities = Current Ratio

= 52,000 ÷ 30,000 = 1.73:1

If you have no liabilities, your current ratio would be the total of your current assets to 1 or 0 – for example, if your current assets totalled $5,000 but you have no current liabilities, your current ratio would be 5000:1 or 5000:0

It might help to think of the current ratio like a leaking cup – to keep the cup from being empty, the water needs to be going in at least at the same rate that it is leaking out. 1 cup of water in : 1 cup of water out.

What is a Current Asset?

A current asset is an amount owing to you by someone else that you expect to receive within the next 12 months. Current assets are assets that a licensee has (like cash in the bank) or are expecting to receive within the 12 months (like payment for a job you have just finished).

Current assets include:

- Cash;
- Invoice amounts to clients who are yet to pay (which are not disputed or older than 12 months from invoice date);
- Prepaid expenses (such as insurance premiums that have not yet expired);
- Works you have completed but not yet invoiced (ie cost of materials, and labour you have undertaken but haven't billed the client for yet).

A current asset is not:

- Goodwill;
- Formation expenses;
- Uncollectible debts;
- Real estate not currently for sale.

What is a Current Liability?

A current liability is an amount owing by you to someone else that you expect to pay within the next 12 months.

Current liabilities include:

- Trade creditors (subcontractors, suppliers);
- Taxation liabilities;
- Credit card debts;
- The proportion of loans, mortgage repayments, finance leases etc the be paid within the next 12 months.

WHAT IS MAXIMUM REVENUE?

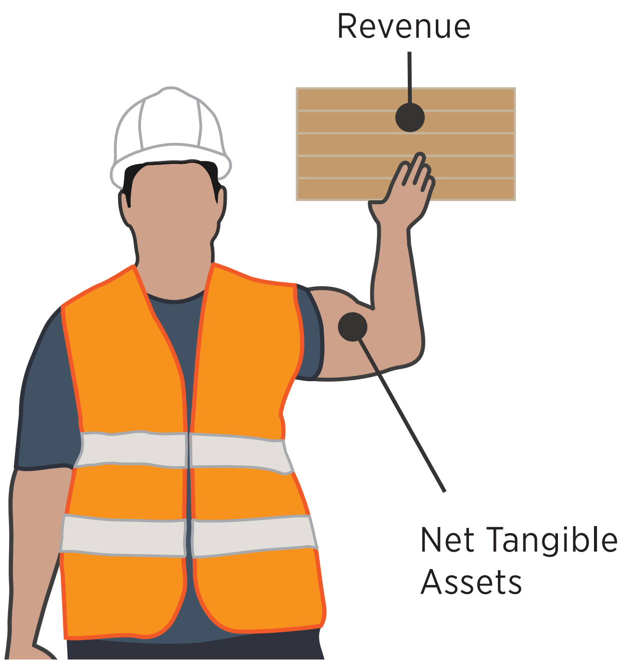
Maximum revenue (MR) is the maximum amount you can turn over (or earn) in a financial year, and is not amount that you must turn over. You need to have enough net tangible assets to cover the ceiling or maximum you can turn over.

Think of the relationship between your net tangible assets as your muscles, and the maximum revenue amount as the highest number of contracts you can carry in a year.

Your maximum revenue is determined by your net tangible assets. For example; if your net tangible asset value is $95,000 your maximum revenue can be up to $1,779,990.00. This is the maximum amount you can turn over, you can turn over any amount from $0 up to $1,779,990 – you do not need to turn over $1,779,990 every year.

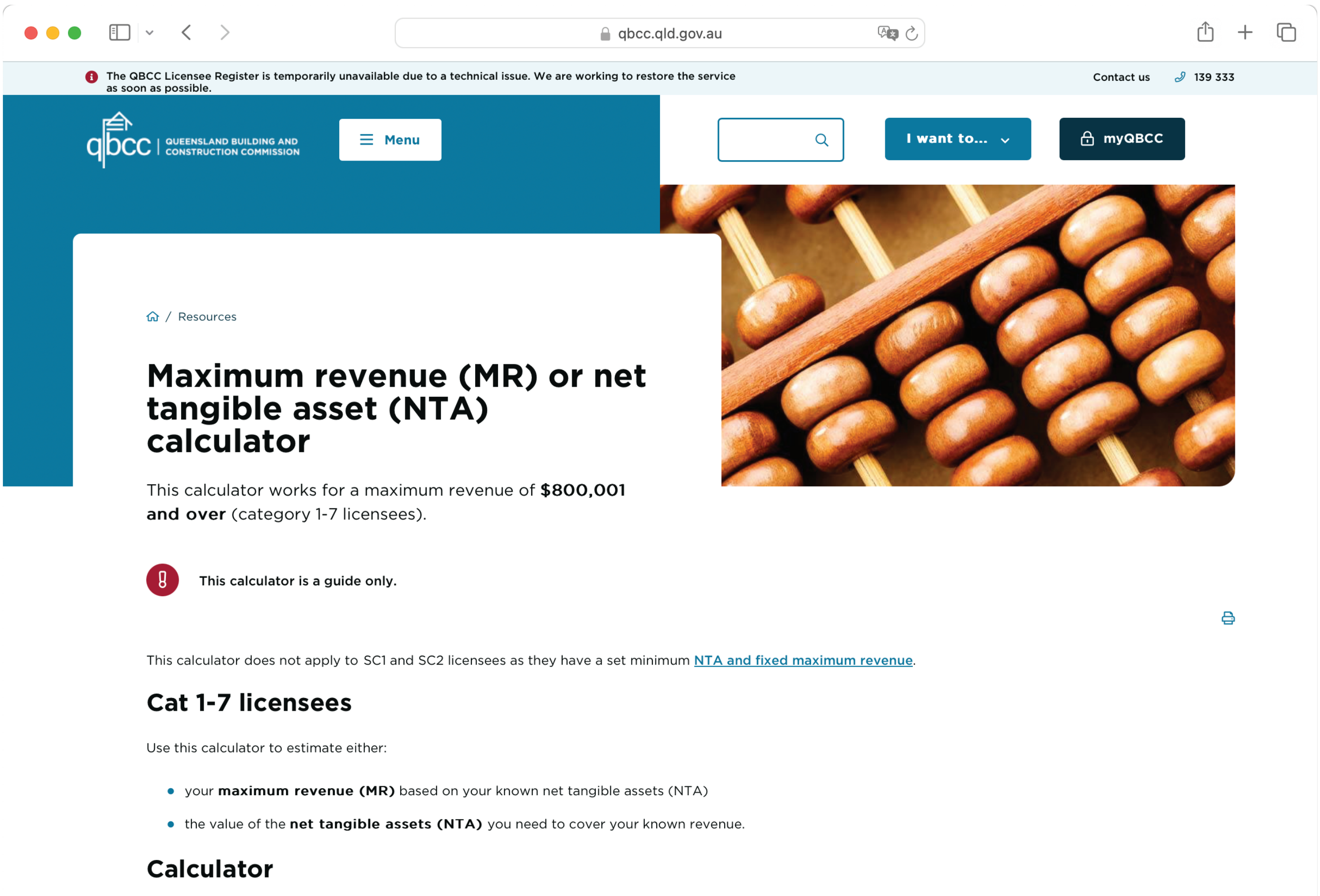
Alternatively, you may nominate a lower amount of maximum revenue, by nominating a lower amount when you provide QBCC with an MFR Report.

You may exceed the set maximum revenue amount by up to 10% without advising us. If you want to increase your turnover by more than 10%, you must first provide us with a new financial Declaration or MFR Report that supports the increase.



Maximum Revenue and Net Tangible Assets online calculator

If you are unsure of the value of the net tangible assets you need to cover your known revenue, or what maximum revenue amount will be set based on your net tangible assets, the QBCC website has a handy MR/NTA calculator https://www.qbcc.qld.gov.au/resources/tool/maximum-revenue-mr-net-tangible-asset-nta-calculator



How do I know what financial category I fit into?

Your financial category relates to your maximum revenue. Your maximum revenue will fall within a financial category from self–certifying category 1 at the lowest end to category 7 at the highest end.

- Maximum revenue of not more than $200,000: self-certifying category 1 (SC1);
- Maximum revenue of more than $200,000 but not more than $800,000: self-certifying category 2 (SC2);
- Maximum revenue of more than $800,000 but not more than $30,000,000: categories 1, 2 and 3;
- Maximum revenue of more than $30,000,000 – categories 4, 5, 6 and 7.

FINANCIAL CATEGORY	MAXIMUM REVENUE (MR)	NET TANGIBLE ASSETS (NTA)
Self Certification 1 (SC1)	Up to $200,000	$12,000
Self Certification 2 (SC2)	Up to $800,000	$46,000
Category 1	$800,001 – $3,000,000	$46,001 – $156,000
Category 2	$3,000,001 – $12,000,000	$156,001 – $480,000
Category 3	$12,000,001 – $30,000,000	$480,001 – $1,200,000
Category 4	$30,000,001 – $60,000,000	$1,200,001 – $2,400,000
Category 5	$60,000,001 – $120,000,000	$2,400,001 – $4,800,000
Category 6	$120,000,001 – $240,000,000	$4,800,001 – $14,400,000
Category 7	>$240M NTA x 16.67	>$14.4M

Your net tangible assets will set the maximum revenue amount (or the ceiling). You can choose to limit the amount of your net tangible assets to allow a lesser maximum revenue amount to be set. Your maximum revenue amount does not appear on QBCC's public register licence search, as that amount is confidential between the licensee and the QBCC. That is why there are licence categories displayed.

For example, if your net tangible assets total $254,600, your maximum revenue amount would be set at $5,738,889. If you turn over no more than $3,000,000 each year, you could limit your net tangible assets to $156,000 and that would cap your maximum revenue amount at $3,000,000.

If your maximum revenue amount is $5,738,889, you would fall into financial category 2. Only the financial category range of $3,000,000 - $12,000,000 will appear on your licence search.

MFR versus Annual Reporting versus Licence Renewal

There are three financial milestones to receive and maintain your licence now:

- Providing an MFR Report is required when you apply for a new licence, if you decrease your NTA by 20 to 30% (depending on your licence category), if you breach your Maximum Revenue amount by more than 10%, if your business structure changes, or if we request it.
- Annual Reporting is a once a year submission based on the information that is required for each licensee's financial category. These will be assessed to confirm licensees are meeting the financial requirements of the regulation. Annual Reporting information for SC1, SC2, and categories 1-3 does not need to have any accounting standards applied, does not need to be prepared by an accountant, and is based on your most recent reporting or financial year information (ie 30 June).

Your 'annual reporting day' is the date by which you must provide your annual financial information to the QBCC to be assessed for compliance with the MFR Regulation. The QBCC will notify you of this date when you first receive your licence.

Annual Reporting for categories 4-7 requires signed general purpose financial statements for the most recent reporting or financial year.

- **Licence renewal** – the payment of a roll or renewal fee to keep your licence current. This can be paid for 1 year or 3 years.

WHAT IS AN MFR REPORT?

An MFR Report is a report which is required to be given to the QBCC by licensees and is only required in the following circumstances:

- when you apply for a new licence (Category 1 or above) (that is, for licensees who wish to turn over $800,000 or above per financial year);
- If you wish to rely on a Deed of Covenant and Assurance amount, if the covenantor changes, or you wish to increase or decrease the assured amount of the Deed;
- if your Net Tangible Asset position decreases by more than 20% for Categories 4-7 licensees and 30% for all other licensees;
- if your Maximum Revenue (MR) needs adjusting (you must not exceed your MR by more than 10% in each financial year);
- if we request it.

NOTE: The financial information provided for an MFR Report must be:

- no more than 4 months old as at the day the report is signed by a qualified accountant;
- signed by a qualified accountant no more than 30 days before the day the report is given to QBCC.
- Essentially, an MFR Report is required to apply to change any information previously provided by your accountant. Information provided with an MFR Report must be signed off by an independent qualified accountant, must be accompanied by signed financial statements and must have relevant accounting standards applied.

WHAT IS ANNUAL REPORTING?

Annual Reporting is a once a year submission based on the information for the relevant licence category.
It is a quick financial health check. Your annual reporting submission does not change your set maximum revenue amount, or adjust the last approved net tangible asset position – only an MFR Report will do that. An MFR Report is not required for annual reporting purposes.

What is required to be submitted?

SC1 and SC2 (due date is usually 31 March each year)	In the myQBCC online portal you will only need to enter your: • Profit and loss figures. This is your revenue and expenses. • Your assets and liabilities figures. You don't need to send us any paper work, only the completed 3 page annual reporting form.
Categories 1, 2 and 3 (due date is usually 31 December each year)	In the myQBCC online portal you will need to enter your figures in and provide a copy of relevant paperwork: • Profit and loss statement. • Balance sheet. • Debtors and creditors report (age listing). • Statement of cash flow. These documents do not have to be prepared by an accountant and do not need to have accounting standards applied.
Categories 4-7 (due date is usually 31 December each year)	In the myQBCC online portal you will need to enter your figures in and provide a copy of relevant paperwork: • Profit and loss statement. • Balance sheet. • Debtors and creditors reports (age listing). • Statement of cashflows. • Notes to the financial statements. • Written declaration (this will appear in the online portal as a download). • Description of the measurement (basis and accounting policies relevant to those statements). Category 4 to 7 licensees are required to provide general purpose financial statements for annual reporting

What is the difference between an MFR Report and the information required for Annual Reporting?

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- Is a “once a year” submission based on the information for the relevant licence category, confirming licensees are meeting their MFR.
- For most licence categories, annual reporting information:
  - » Does not need to have any accounting standards applied
  - » Does not need to be prepared by an accountant
- Is based on your most recent financial year (ending 30 June)
- Is a quick financial health check
- Has set due dates for when this information is required (31 December or 31 March).
- Does not change your set/approved Maximum Revenue or Net Tangible Assets
- For a trustee/trust licensee, is the financial information based on the trust (the trading entity)

Does not require an MFR Report to be completed

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Only required when you:

- Apply for a new licence (categories 1-7)
- If you wish to rely upon a deed of covenant and assurance amount
- If you wish to increase or decrease an assured deed amount
- If you decrease your NTA by 20% or 30% (depending on your licence category
- If you breach the approved maximum revenue amount by more than 10%
- If your business structure changes
- To increase or decrease your approved maximum revenue amount
- If we request it.
- Must be based on financial information no older than 4 months in age at the time the accountant signs the report.
- Can be provided any time during the year, if you are required to do so.
- For a trustee/trust licensee, financial statements are required for both the trust and trustee (even if the trustee company only has paid up capital of $2 or $10. QBCC does not have the discretion to waiver this requirement.

This is an MFR Report and signed financial statements.

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FREQUENTLY ASKED QUESTIONS

What is my "most recent reporting year"?

You are required to provide financial information for your most recent reporting year. For most licensees, your most recent reporting year end would be 30 June, in line with the financial year.

What if I have no income, or I am not currently trading?

If you are not actively using your licence you will still be required to provide your financial information to QBCC annually. You can report that your turnover is $0, but you still need to hold the required Net Tangible Assets to support your licence category.

If you are not trading under your licence, you may apply to change the type of licence from a contractor to a nominee supervisor. Nominee supervisor licences are not required to meet financial requirements. However, be sure to review the technical requirements for the licence in question, because if you want to change back from a nominee supervisor to a contractor licence, you need to hold current technical qualifications in that class of licence.

What if I trade through a trust structure?

A trust is not a specific legal entity, it cannot be sued. A trust provides a legal protection of assets.

QBCC does not licence trusts. For licensees operating through a trust structure, it is the trustee (usually a company, or Pty Ltd) who must hold the licence and meet the Minimum Financial Requirements.

The current ratio requirement is calculated on the combination of the trust and the trustee's current assets and current liabilities.

The net tangible asset requirement is calculated on the trustee's total assets and total liabilities only.

The actual revenue is calculated on the combined income of the trust and the trustee.

To satisfy the annual reporting requirements, the financial information provided would be for the trust as the trading entity.

What is "actual revenue" made up of?

Actual revenue of a licensee must include ALL turnover or income of that entity, regardless of whether it is earnt in Queensland, and regardless of whether it is construction-based, including:

- Income inside and outside the construction industry;
- Income from all states, not just Queensland.

Revenue could be money gained from building and construction, selling goods or materials, rental or investment properties, running a second business from the same entity.

Why do I need to report all income or revenue if it is not building-related?

QBCC licences the entity as a whole, not just the Queensland building component of that entity. The Minimum Financial Requirements is calculated on risk – the larger the revenue, the more risk. The larger the revenue, the net tangible assets needed are higher to mitigate the potential debts.

Example – a company has a warehouse where it sells timber, and it also builds fences. The fencing component is only 10% of the overall business, so why does QBCC need to know about the timber sales? Well, maybe the fencing part is going really well, but the timber sales are really down. If the timber sales cause the company to go broke, the fencing part will also go broke, and the suppliers and subcontractors of the fencing part will also likely lose their money.

What if I don't want to use the online portal?

It is preferred that licensees lodge online via the portal however there are PDF forms available on the QBCC website which can be lodged at any QBCC Service Centre, or sent via email to annualreporting@qbcc.qld.gov.au.

How does my accountant get access to the portal to submit my annual reporting information?

The licensee needs to grant the accountant (or any other authorised representative) access to lodge information on their behalf.

Your accountant can create a myQBCC account but will need the licensee to give them permission to lodge a form on your behalf.

At this stage, only annual reporting submissions can be lodged via myQBCC, and not MFR Reports.

Need more information?

Visit **qbcc.qld.gov.au**, call us on **139 333**
or write to **GPO Box 5099, Brisbane Qld 4001**

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