Minimum Financial Requirements Key Messages about the new policy

Regulatory burden and costs reduction - no financial information at annual renewal

- The new Minimum Financial Requirements (MFR) Policy no longer requires licensed contractors to provide financial information demonstrating they comply with the financial requirements yearly at renewal.
- This represents a significant reduction in the regulatory burden and cost of maintaining their licence.
- Previously, each year, licensed contractors (those who have a licence allowing them
 to contract directly with the public) were required to submit financial information to
 the Commission, in the form of a report from their external accountant in order to
 renew their licence.
- Additionally, larger licensed contractors (with turnover in excess of \$12m) had to submit audited financial statements.
- This was a costly exercise for these licensees. The total cost to industry of supplying these reports each year has been estimated to be at least \$31M per year.
- The Commission has recognised the burden this placed on licensees so has removed the requirement to submit financial information every year at renewal in order to streamline the process for these licensees.
- Licensed contractors must still meet the Minimum Financial Requirements at all times.
- However, the changes mean that contractors with annual turnover in excess of \$600,000 are only required to submit a financial report to the Commission when they first apply for a licence or in order to upgrade their turnover limit.
- This is necessary to ensure licensees operating in the industry remain financial viable.

Why make this change and how will the QBCC manage the risks of not checking licensed contractors financial information yearly?

- The Commissions statistics showed that only a very small number of licences were cancelled for failing to meet the old financial requirements at renewal each year.
- Financial information provided at the time of renewal under the old financial requirements was often stale or months old which did not truly indicate whether the licensee remained viable and should be able to continue to hold a licence.

- This indicated the requirement to lodge reports with the Commission annually was not achieving its aim, and considering the costs associated with it, could be done a better way.
- The Commission is now moving to proactively monitor licensees, particularly on the issue of non-payment of debts to ensure swift response times.

Enhancing Security of Payment

- Non-payment of debts in the building industry causes financial distress, financial collapse and costs the industry, its participants and their families millions of dollars.
- The new MFR requires licensed contractors to pay all debts within agreed trading terms. Failure to pay a legitimately owed debt that is not subject to genuine dispute will result in loss of licence.
- The Commission's tough stance on this complex problem in the industry is good news for all industry participants. This new requirement ensures the Commission can move quickly and decisively to deal with issues of non-payment and ensures that those licensees who do not pay their debts cannot string out the problem and continue to incur further debt they cannot pay.
- The message is pay your debts and make sure you maintain your cash flow in order to do so or be forced out of the industry.

Streamlined Requirements – sources of confusion eliminated

- The current Financial Requirements for Licensing imposes vastly different requirements on licensed contractors depending on their size, including different report types, different rules for ages of information and different monitoring requirements.
- This has been a source of confusion for licensees, particularly when they moved into different financial categories, i.e. as their business grew.
- The new MFR aims to streamline the process and set the same rules for licensees across the categories and bases those rules on good business and accounting practices that encourage profitable and viable businesses which ultimately benefits licensees.
- The new MFR introduces **1 report type** for all categories and aligns the age of financial information and the regularity of financial monitoring for all categories.
- In addition the policy has been **completely rewritten** and definitions clarified with the ease of the reader in mind. These things combined are intended to remove much of the previous confusion about how to comply with these requirements.

Changes to financial categories – allowing small business in the industry to grow

- Under the old policy contractors and builders had the option to self-certify (by providing a declaration) that they met the Commission's financial requirements for turnovers up to \$100,000 (only for trade contractors) and \$300,000 (the entry level for builders).
- With ever increasing costs to build the average house, the Commission recognised this may have imposed a barrier to small business in the industry as the costs of compliance with the policy increased significantly once a licensee moved up into higher turnover categories.
- With this in mind the new MFR doubles the turnover limits for the self-certification categories.
- The annual turnover limits for these new self-certification categories is now \$200,000 and \$600,000 respectively.
- The Commission is ensuring entry for new small businesses into the industry is less costly and is given the opportunity to grow. This is the **first time since 2006** the limits for self-certifying financial categories have been increased.

Licensees – monitor your business performance

- All business owners go into business to make money and succeed. The building
 industry is one of the pillars of the Queensland economy and can be profitable for
 businesses operating in it, providing those businesses keep an eye on their
 performance.
- The new MFR requires all licensed contractors to monitor their financial performance at least quarterly.
- This aligns with BAS (GST) reporting requirements so it does not impose any additional burden on licensees but the message is clear: **keep an eye on the financial performance of your business**.
- The aim of the policy is to promote financially viable businesses and foster professional business practices. This starts with business owners monitoring their own financial performance. The Commission will proactively check licensees are conducting these checks to ensure the policy achieves its aims.