

**NSW Treasury**

**GUIDELINES FOR AGENCIES**

**Prequalification Scheme:**

**Financial Assessment Services**

**November 2021**

**SCHEDULE OF DOCUMENT AMENDMENTS**

|  |  |  |
| --- | --- | --- |
| **Revision Number** | **Date** | **Update Description** |
|  | 11 March 2015 | Rollover of scheme for further 2 years; update of documents. |
|  | July 2015 | Update of name change OFS to DFSI |
|  | 1 March 2017 | Rollover of scheme for further 2 years; update of documents. |
|  | 1 July 2019 | Department change, email address change, rollover |
|  | 25 November 2021 | NSW Treasury address contact details have been updated |
|  | 16 March 2022 | Rollover of scheme for further 2 years |

# INTRODUCTION

The Prequalification Scheme: Financial Assessment Services (the Scheme) will remain effective to 18 March 2024 and is managed by the NSW Treasury.

NSW Government agencies are continually contracting with providers in the private sector. As such, service providers undergo an evaluation process before they are able to transact with any NSW Government agency. This evaluation process includes an assessment of the risks involved in the project such as the possibility that the private sector entity will not be able to deliver on the contract due to financial stress. One of a range of measures designed to identify and mitigate this risk is to conduct an assessment on the financial capacity of the service providers.

Agencies will need to recognise that no financial viability assessment can provide an iron-clad guarantee that potential suppliers will remain solvent throughout the entire life of a project. Each assessment can only provide a point-in-time picture of a potential suppliers’ financial position.

The Scheme offers a means of obtaining the services of prequalified service providers who have demonstrated their professional expertise and capability in performing financial assessments. NSW Treasury, NSW Procurement maintains a list of service providers which are available to all Government agencies for selection.

The Scheme aims to:

* reduce the financial and reputational exposure for Government by ensuring all agencies understand that there is an opportunity to mitigate part of the commercial risk by using the financial assessment services as appropriate;
* simplify and streamline the engagement process by prequalifying service providers with demonstrated track records in the provision of financial assessment services;
* establish quality, consistency and content expectations on financial assessments through the use of standard reports; and
* implement efficiencies in and continuously improve the quality and reliability of financial assessment services by monitoring trends, reporting on performance and seeking feedback from agencies and service providers.

***What financial assessment services are covered by the Scheme?***

Financial assessment services are required by Agencies for prequalification of contractors and suppliers, construction contracts, facilities maintenance contractors, goods and services suppliers, information, communications and technology (ICT) suppliers, single trade services suppliers, specific services consultants or any other contracts, and may be requested any time.

Financial Assessment Services under the Scheme means gaining an understanding of and conducting an expert assessment on an entity’s ownership, structure, business and financial capacity to undertake projects up to a specified value. The assessment includes analysis on financial performance and liquidity based on the management, final or audited financial statements of the entity with consideration to any related party transactions such as intra-group loans.

The analysis will include interpretation of financial ratios and assessment of the implications of ratios against the overall financial capacity. The impact of current works on hand, pipeline or proposed projects and/or project commitments to cash flows, cash flow projections, level of working capital and overall financial capability will also be included in the analysis. Simple credit rating information is not considered a financial assessment and would not be acceptable as meeting the definition of Services under this Scheme.

A financial assessment is only one of a range of measures designed to reduce risk. Agencies need to be aware that no financial assessment can provide certainty or guarantee that potential contractors or suppliers will remain solvent throughout the entire life of a project or contract. A contractor or supplier’s financial capacity can rapidly deteriorate or improve with changes to the economic and operating environment. Agencies should recognise that the financial assessment can only provide a point-in-time picture of financial capacity and identify whether there is any risk. Financial assessments should not be used by agencies as a substitute for sound project planning and contract management.

Further any modification to the Template Financial Assessment Reports prescribed under the Scheme or any abridged versions of such reports are also considered out of the scope of this Scheme. Agencies that require any other form of financial assessment reports should use other allowable methods of procurement.

* **Levels of Financial Assessment**

The Scheme includes three levels of financial assessment services that may be carried out by Service Providers: Basic, Medium or Comprehensive. There are prequalified Service Providers in each level that Agencies can select from.

Agencies are responsible for determining the appropriate level of financial assessment they require. The level of financial assessment to be carried out should be commensurate to the scale, scope and relative risk of a proposed project. The table below provides a guide where each level of financial assessment may be appropriate:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Contact Value** | **< $1.0 M** | **<$10.0 M** | | **>$10.0 M** | |
| **Contractor Revenue** | **n/a** | **<$25.0 M** | **>$25.0 M** | **<$300.0 M** | **>$300.0 M** |
| **Basic** | **✓** | **✓** |  |  |  |
| **Medium** |  |  | **✓** | **✓** |  |
| **Comprehensive** |  |  |  |  | **✓** |

* **Types of Financial Assessment**

Agencies may require the financial assessment for one of the following:

* Prequalification - evaluation of the financial capacity of contractors or suppliers seeking prequalification for construction, facilities maintenance, general goods and services, Information, Communication and Technology (ICT), trade services, complex medical diagnostic equipment, service consultants and other goods and services contracts.
* Tender - evaluation of the financial capacity of tenderers before they are awarded a contract for construction or facilities maintenance, general goods and services, Information, Communication and Technology (ICT), trade services, complex medical diagnostic equipment, service consultants and other goods and services.
* Monitoring – includes updates on a previous financial assessment and the on-going evaluation of the financial capacity of service providers with contracts that are in progress.

***How can Agencies obtain the services from prequalified Service Providers?***

NSW Treasury, NSW Procurement will publish the list and details of prequalified Service Providers on the NSW Procurement website: [Financial Assessment Services Scheme | buy.nsw](https://buy.nsw.gov.au/schemes/financial-assessment-services-scheme)

Agencies can place an order to a Service Provider using the standard Order Form set out in Schedule 4 of the Scheme Conditions. Each order will be considered a separate and distinct engagement but there is no need to sign separate agreements for each financial assessment engagement. The engaging Agency and the Service Provider are deemed to have entered into the Standard Form Agreement set out in Schedule 2 of the Scheme Conditions at the time an order is made.

Agencies can send the order form to Service Providers in hard copy or through an electronic ordering facility, if offered by the Service Provider. Any order placed electronically via the Service Provider’s database, and provided in the prescribed format, is deemed to be an order placed under the Scheme. Any financial assessment service provided not supplied in this format is deemed to have occurred outside of the Scheme.

***How much will the financial assessment services cost the Agencies?***

The rates for financial assessment services are fixed for the first two (2) years from the date a Service Provider is prequalified under the Scheme. Details of rates can be obtained by Agencies by contacting the selected Service Provider. Agencies should confirm rates prior to ordering an assessment.

***What information is used by the Service Providers in carrying out the financial assessments?***

There is a range of information and documents that will be used Service Provides. This will depend on several factors such as the level and type of assessment required by the Agency and the size and type of the organisation being assessed.

The following are examples, but are not exhaustive, of possible information and/or documents that will be used:

* Organisational and legal structure
* Corporate and directors’ details
* Annual reports
* Audited financial statements
* Management accounts
* Cash flow projections
* Bank guarantees, overdrafts and other financing facilities
* Court or other regulatory notices
* Work on hand and pipeline summary
* Company search through Australian Securities and Investments Commission (ASIC) or Personal Property Securities Register (PPSR)

***Who is responsible for gathering and collecting all the required information to be used in the financial assessment?***

The Service Provider is responsible for obtaining all relevant information required to perform the financial assessment. In some unusual circumstances, the Agency that requested the financial assessment may assist the Service Provider in acquiring relevant financial information through the Agency’s procurement process.

***What will happen if a Service Provider is unable to obtain all relevant information to enable a financial assessment report?***

Problems or delays may be experienced by the Service Provider in gathering the information and these can potentially cause the Service Provider to miss the deadline for submitting the report. In these circumstances, the Service Provider should provide a status update to the Agency as soon as the delay or problem is known or at the time the report is due, whichever is earlier.

The Service Provider will be advised by the Agency on how to proceed. Agencies may instruct the Service Provider to still carry out the financial assessment or to cancel the order for that financial assessment. In the event that an Agency decides to cancel the order, payment for any interim work already performed by the Service Provider will be negotiated between the Agency and the Service Provider.

***What financial assessment reports can Agencies expect from the Service Providers?***

Service Providers are required under the Scheme to prepare the financial assessment reports in a standard and consistent format. There are Template Financial Assessment Reports under each level of assessment (Basic, Medium and Comprehensive) and these are included in Schedule 5 of the Scheme Conditions. The Service Providers are to provide electronic copies of the financial assessment reports to the Agencies and to NSW Treasury, NSW Procurement. The use of Template Financial Assessment Reports allows for comparability over time and across various Agencies.

***How should Agencies use the financial assessment reports received from the Service Providers?***

The reports submitted by Service Providers include a clear recommendation, based on the current available information obtained, whether the contractor or supplier being assessed meets or does not meet the financial capacity criteria set out by the Department and whether the contractor or supplier does, or does not have, the financial capacity to deliver and complete the construction works or goods or services. The reports will also include an explanation on why the contractor or supplier does, or does not have, the financial capacity to deliver and complete the construction works or goods or services.

Agencies should note that the information used for financial assessment is a historical snapshot which can only give current or short-term future likelihoods based on current, known issues and situations at the time of the assessment. A financial assessment is not necessarily an indication of long-term financial capacity because a contractor’s or supplier’s financial capacity can rapidly deteriorate or improve with changes to the economic and operating environment.

***Where can Agencies seek help in understanding and interpreting the financial assessment reports?***

NSW Treasury, NSW Procurement has prepared guidance materials to assist Agencies in understanding the financial ratios which is useful in interpreting the financial assessment report. Refer to the separate document entitled *Guide to Financial Assessments*.

If an Agency has a query on a specific financial assessment report, the Agency should contact the Service Provider who performed the financial assessment and clarify that part of the report that is not clear or where the Agency needs additional information.

***When should Service Providers submit their reports to Agencies?***

Turnaround times are based on the level of assessment and the priority level that a requesting Agency has specified in the Order form. The time commences from the date and time an order is made by an Agency and that order is received by the Service Provider.

Each priority level has a corresponding turnaround time specified in Schedule 6 of the Scheme Conditions and as shown in the following table:

|  |  |  |
| --- | --- | --- |
|  | Priority Level | |
| Level of Assessment | Standard | Priority |
| Basic | 5 working days | 3 working days |
| Medium | 7 working days | 4 working days |
| Comprehensive | *not specified* | *not specified* |

In the case of comprehensive financial assessments, a standard turnaround time is not specified in the Scheme due to the complexity and the scope expected for these assessments. The required turnaround times for comprehensive financial assessments are to be negotiated and agreed between the Agency and the Service Provider.

***How is performance of Service Providers monitored and reported on?***

Agencies are required to submit a Performance Report where:

* the performance of, and the services, provided by the Service Provider is considered by the Agency to be unsatisfactory; or
* the Service Provider has been engaged by an Agency for a comprehensive level of financial assessment.

Agencies also have the option to submit a Performance Report on any Service Provider for engagements other than those circumstances mentioned above.

A standard form of the Performance Report is set out at Schedule 3 of the Scheme Conditions. Agencies are to provide a copy of the Performance Report to the Service Provider and the Department.

If the Service Provider disagrees with the Performance Report, the Agency and the Service Provider must attempt to resolve the disagreement in the first instance. Following an unsuccessful attempt to resolve a disagreement, the Service Provider may refer the Performance Report, with written reasons for the disagreement, to the Department.

# *How long will the Scheme operate for?*

The Scheme is effective to 18 March 2024 and may be extended. Modifications to the Scheme may be made at the discretion of NSW Treasury, NSW Procurement during the life of the Scheme.

# *Who can I contact regarding the Scheme?*

For matters related to the operation of the Scheme, Agencies can contact:

The Category Manager

Prequalification Scheme: Financial Assessment Services

NSW Treasury

NSW Procurement

52 Martin Place, Sydney NSW 2000

e-mail: [FinancialAssessments@treasury.nsw.gov.au](mailto:FinancialAssessments@treasury.nsw.gov.au)

Ph: 1800 679 289

**Agency Process for Prequalification Scheme**

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**Financial Assessment Services**

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Send status update to

agency regarding

delays or issues with

obtaining information

Receive

**Order Form**

from Agency

Service Provider

details obtained by

Agency

Provide details to

Agency including

rates

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fees

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Agency

selects Service

Provider

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Provide Agency with

details of Service

Provider including

rates

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Agency

selects Service

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Directly contacting

Service Provider

From NSW Procurement website

and

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or request from DFS

Request documents

from supplier

,

contractor or tenderer

Documents

received

?

Documents provided

to Service Provider

Perform financial

assessment and

prepare the Financial

Assessment Report

To continue with

assessment

?

Order cancelled

Receive electronic

copy of

**Financial**

**Assessment Report**

Receive

**Financial**

**Assessment Report**

Performance report

to be submitted by

Agency

?

Receive copy of final

**Performance Report**

Service Provider

agrees with

Performance

evaluation

?

Invite Service

Provider to show

cause and resolve

disagreement

Continue use of

Scheme and provide

any feedback to DFS

Yes

No

No

Yes

Yes

No

No

Documents filed

Receive copy of final

**Performance Report**

Finalise

**Performance Report**

Yes

Agency requirement for

financial assessment

services

Agency determines type

and level of financial

assessment required

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Fill out order form under

the Scheme

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