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HBCF Builder's Guide to Eligibility

A Reference Guide to the Eligibility Assessment Process for Builders

Insurance and Care NSW (icare) provides services in the administration of the Home Building Compensation Fund (HBCF) for the NSW Self Insurance Corporation and together they are icare HBCF.

This document has been prepared by icare.
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3.0	Plain English rewrite. Addition of Reviews and Complaints, Regulation and Governance, and Glossary sections. Added examples to Financial risk factors.	November 2021	icare HBCF Technical Writer
4.0	Updated to include functionality from the new Underwriting Eligibility model for Q3 2022.	July 2022	icare HBCF Technical Writer

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1 Introduction

1.1 Home Building Compensation (HBC) insurance

HBC insurance provides a safety net for homeowners when their builder is unable[1] to meet their contractual obligations due to insolvency, disappearance, or death. The HBC safety net also protects homeowners if a builder has their licence suspended due to failure to comply with an NSW Civil and Administrative Tribunal **(NCAT)** or court order to pay compensation to the homeowner.

Under the *Home Building Act 1989*, HBC insurance is mandatory for all residential building work valued at over $20,000, except for construction of new residential apartment buildings above three storeys.

> **Note:** Other Australian states have different regulations and requirements for building insurance. HBC Insurance is for building projects done only in NSW and valued at over $20,000. HBC Insurance does not cover new residential apartment building construction of more than three residential levels.

1.2 The purpose of this document

This reference guide summarises information from the *HBCF Eligibility Manual*, a comprehensive guide to the icare HBCF Eligibility and underwriting processes available at www.icare.nsw.gov.au.

icare HBCF performs a risk assessment for each new Builder Eligibility application and performs scheduled and event-based risk assessments for builders who have current Eligibility. This reference guide is to help builders understand which aspects of their business operation icare HBCF assesses before granting them HBC insurance Eligibility. Our Eligibility Assessment will determine whether a builder presents an acceptable or unacceptable risk to the HBCF and/or homeowners.

Where the overall assessment result determines that the builder is an unacceptable risk, icare HBCF may:

- decline a new Eligibility application or decline an Eligibility renewal
- suspend the builder's Eligibility and ability to purchase new COIs
- schedule a Special Eligibility Review (SER)

1.3 Terms used in this document

> **Note:** We've explained the terms we use in this document in the Glossary section on page 21.

1 References in this document to builders and building work include and apply to work undertaken by trade contractors and other building contractors such as electricians, plumbers, carpenters, swimming pool builders, etc.

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2 Builder Eligibility

2.1 What's Eligibility?

Eligibility is the term used to describe the approval to obtain insurance from us for specific projects and under what conditions they can keep buying insurance from us.

2.2 You need a NSW Builder's Licence

The first step to getting HBC insurance is having a current NSW Builder's Licence. NSW Fair Trading licenses builders and you can find details on their website: https://www.fairtrading.nsw.gov.au/trades-and-businesses/licensing-and-qualifications

Without a current Builder's Licence for the type of work you intend to do, you cannot obtain HBC insurance.

2.3 You must apply for Eligibility through a broker

icare HBCF does not deal directly with builders. All builders must use an approved insurance broker to submit and manage their Eligibility application. icare HBCF provides a list of approved brokers and their associated fees on our website: https://www.icare.nsw.gov.au/Builders-and-homeowners/Builders-and-distributors/find-a-broker-distributor

We sometimes refer to brokers as distributors.

2.4 Why we assess risk before we grant Eligibility

icare HBCF, for the benefit of all builders, sub-contractors, suppliers, homeowners, and the community, thinks that it is critical to ensure that we only grant Eligibility to purchase HBC insurance to builders who are not high-risk. Before we grant a builder Eligibility, our assessments must give us confidence that builders can support the level of approved Eligibility they apply for and can complete the projects they undertake.

Builders who run their business efficiently should not have to compete against builders whose business practices are likely to result in insolvency or licence suspension. Builder insolvency can have a major negative impact on the businesses of sub-contractors, as well as homeowners, and icare HBCF.

Our assessments aim to reduce the number of builders operating who typically don't meet their financial and legal obligations and whose actions may result in HBCF claims. The number of HBCF claims directly impacts the cost of insurance premiums and that affects the whole industry.

2.5 When we perform risk assessments

We perform a risk management assessment for a builder when we receive an Eligibility application or when a builder requests a change to their Eligibility profile. For example, a builder may request an increase to their Open Job Limits (OJL). We may also review builders periodically based on the builder's size and risk profile. We assess high-risk builders more frequently than low-risk builders. In some high-risk cases, we also monitor the builder closely (intensive monitoring). In some cases we call for a Special Eligibility Review. For example, we may receive notification of a claim that has been made against the builder.

2.6 Certificate of Eligibility (COE)

When a builder successfully completes an Eligibility Assessment, we will issue them with a COE. This COE permits the builder to buy HBC insurance for building projects. Each COE defines the value and number of individual jobs permitted under construction at any time.

For example, a COE may restrict a builder to 10 active jobs (Open Job Number—**OJN**), with a total value of $1,000,000 (Open Job Value—**OJV**). This means that the builder cannot have more than 10 projects active at any time and the total value of those jobs cannot be more than $1,000,000. If that builder has 10 active jobs underway, they cannot start a new job until they complete one of their active jobs.

For example, if a builder who is fully using the limits above completes one of their 10 jobs and the value of that job is $150,000, then they can take on one new job with a maximum value of $150,000.

The Eligibility approval is not a standing entitlement or contract of insurance and icare HBCF may revise, suspend, or cancel Eligibility at any time, but we must follow the processes set out in the *HBCF Eligibility Manual*. For example, if NSW Fair Trading cancels a builder's licence, then we may suspend or cancel the builder's Eligibility without the usual notice period and the builder will not be allowed to take on new work requiring Home Building Compensation Insurance.

> **Important Note:** When we created the new auto-assessment Eligibility option (ASR assessment) we also **removed OJN limits for all System Reviewed Builders**. Please refer to the builder size classification tables in the following pages.

2.7 Certificate of Insurance (COI)

Builders need to apply for an HBC insurance policy for each project. Multi-dwelling projects will have a single policy but will have a COI for each dwelling in the project. Each policy is specific to a single project and can only be used once. The COI specifies what the insurance covers and defines things such as the Insurance Periods (how long the insurance lasts), what the homeowner can claim for, what a major defect is, etc. Always consult the insurance policy for specific details.

3 Builder categories

We categorise builders according to the probable risk they represent and split them into two categories:

- System Reviewed Builders
  - We will use auto-assessment for these builders.
  - These builders make up over 90% of all HBCF Builders.
- (Manually) Reviewed Builders
  - We will manually assess these builders.

3.1 System Reviewed Builders

> **Note:** Our primary determining factor when we assess Eligibility for System Reviewed Builders will be the Eligibility Score, using the new ASR assessment process.

System Reviewed Builders are split into two tiers based on approved Open Job Value:

1. Tier 1—OJV of either $1m, $2m or $3m based on their Eligibility Score.
   - Builders in this cohort will have unlimited [2]Open Job Number (OJN).
   - New entrants to the construction industry must complete the Building Contract Review Program (BCRP) before we will grant them an OJV above $1m.
   - We will manage new builders using the new Eligibility Score process.
   - When Builders in Tier 1 submit a Builder Profile Change request to move to Tier 2, we will subject them to a manual Eligibility Assessment, to check their ANTA only. If the assessment is not successful, they will stay in Tier 1.
   - System Reviewed Builders will transition into Tier 1 or Tier 2 Builders when their current COE expires.
   - If the builder wants to undertake multi-unit work of $1m+, this will be subject to a technical reference assessment
2. Tier 2— OJV of either $3m, $4m or $5m based on their Eligibility Score
   - Builders in this cohort will have unlimited Open Job Number (OJN).
   - If a builder in this tier does not purchase a COI during their current Eligibility period, they will be transitioned to Tier 1 when their Eligibility expires.
   - Builders in this tier looking to move to a Reviewed Builder category (with an OJV greater than $5m) will be subject to a manual Eligibility Assessment when they submit a BPC form.

3.2 Small Builders

- Small Builders will transition into Tier 1 or Tier 2 Builders when their next Programmed Eligibility Review (PER) is scheduled.
- The builder's current PER will still proceed as usual. After that date builders will automatically transition to Tier 1 or Tier 2 based on their Eligibility Score calculated on their scheduled PER date.
- If the builder wants to undertake multi-unit work of $1m+, this will be subject to a technical reference assessment.

> **Note:** If we have previously approved construction limits above the standard limits, then we will maintain these limits for the builder, as long as the builder does not exceed their OJV. We determine the OJV based on the Eligibility Score.

3.3 (Manually) Reviewed Builders

Reviewed Builders are not eligible for auto-assessment. We will assess them manually, as we have done before.

2 This will reduce the number of Builder Profile Change **(BPC)** submissions to increase OJN due to a change in construction work mix towards smaller contracts.

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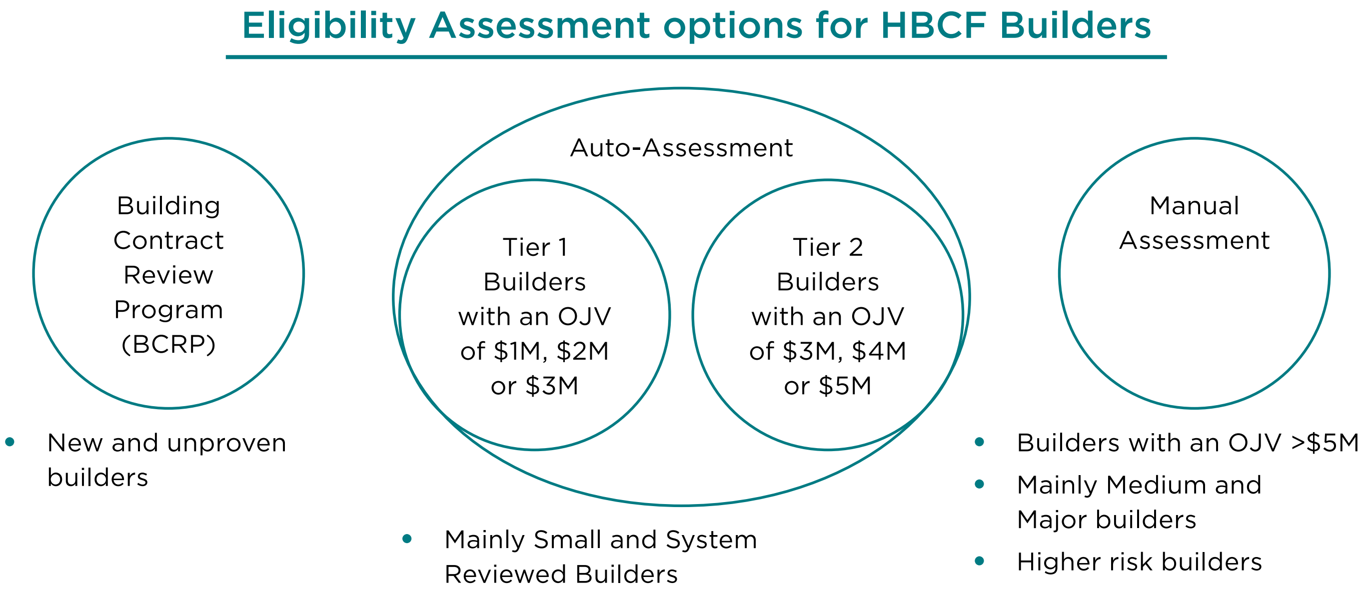
Figure 1: Eligibility Assessment options for HBCF Builders



3.4 Builder size classification

Important Note: SIRA defined **new Construction Types** in December 2021, but **we will not be implementing them until October 2022**. Until October 2022, you should **continue to use the existing Construction Types**.

*Table 1: Builder Size Classification with **existing Construction Types***

Primary icare HBCF Builder segment	[3]Approved OJV	[4]Approved OJN	Builder Size
New homes (new single dwelling construction, granny flats, new construction of a duplex, dual occupancy, triplex, or terrace (attached)	≤ $3M	N/A	System reviewed Builder (Tier 1)
Alterations and additions (structural) – single dwellings	≤ $3M	N/A	System Reviewed Builder (Tier 1)
Renovations (non-structural) – single dwellings	≤ $3M	N/A	System Reviewed Builder (Tier 1)
New multi-unit (low rise)	N/A	N/A	System Reviewed Builder (Tier 1)
Alterations and additions (structural) – multi- units	≤ $3M	N/A	System Reviewed Builder (Tier 1)
Renovations (non-structural) – multi-units	≤ $3M	N/A	System Reviewed Builder (Tier 1)
Swimming pools	≤ $3M	N/A	System Reviewed Builder (Tier 1)
New homes (new single dwelling construction, granny flats, new construction of a duplex, dual occupancy, triplex &/or terrace (attached))	$3M to $5M	N/A	System reviewed Builder (Tier 2)
Alterations and additions (structural) – single dwellings	$3M to $5M	N/A	System Reviewed Builder (Tier 2)
Renovations (non-structural) – single dwellings	$3M to $5M	N/A	System Reviewed Builder (Tier 2)
Alterations and additions (structural) – multi- units	$3M to $5M	N/A	System Reviewed Builder (Tier 2)
New multi-unit (low rise)	≤ $5M	N/A	System Reviewed Builder (Tier 2)
Renovations (non-structural) – multi-units	$3M to $5M	N/A	System Reviewed Builder (Tier 2)

3 This OJV is the value of concurrent incomplete projects that icare HBCF approves as the result of an Eligibility Assessment.
4 This OJN is the number of concurrent incomplete projects that icare HBCF approves as the result of an Eligibility Assessment.

Primary icare HBCF Builder segment	[3]Approved OJV	[4]Approved OJN	Builder Size
Swimming pools	$3M to $5M	N/A	System Reviewed Builder (Tier 2)
New homes (new single dwelling construction, granny flats, new construction of a duplex, dual occupancy, triplex &/or terrace (attached))	>$5M to < $10M	1 to 29	Medium Builder
Alterations and additions (structural) – single dwellings	>$5M to < $10M	1 to 49	Medium Builder
Renovations (non-structural) – single dwellings	>$5M to < $10M	1 to 49	Medium Builder
New multi-unit (low rise)	>$5M to < $10M	1 to 4	Medium Builder
Alterations and additions (structural) – multi- units	> $5M to < $10M	1 to 4	Medium Builder
Renovations (non-structural) – multi-units	>$5M to < $10M	1 to 4	Medium Builder
Swimming pools	>$5M to < $10M	1 to 99	Medium Builder
New homes (new single dwelling construction, granny flats, new construction of a duplex, dual occupancy, triplex &/or terrace (attached))	≥ $10M	≥ 30	Major builder
Alterations and additions (structural) – single dwellings	≥ $10M	≥ 50	Major Builder
Renovations (non-structural) – single dwellings	≥ $10M	≥ 50	Major Builder
New multi-unit (low rise)	≥ $10M	≥ 5	Major Builder
Alterations and additions (structural) – multi- units	≥ $10M	≥ 5	Major Builder
Renovations (non-structural) – multi-units	≥ $10M	≥ 5	Major Builder
Swimming pools	≥ $10M	≥ 100	Major Builder

All builders, except those we assess automatically (using the ASR Assessment) will be allocated a single combined OJL in recognition of the variety of projects they anticipate commencing. Where a builder's approved OJV and approved OJN indicate different builder sizes, the lower of the two builder sizes prevails.

In the example below, HBCF would determine that the builder size is Medium Builder:

- primary HBCF Builder segment: New Homes
- approved OJV: $15M (that is, builder size is Major Builder)
- approved OJN: 20 (that is, builder size is Medium Builder)

Important Note: From October 2022, you should use the **new Construction Types**.

*Table 2: Builder Size Classification with **new Construction Types***

Primary icare HBCF Builder segment	OJV Approved	OJN Approved	Builder Size
New dwelling construction.	≤ $3M	N/A	System Reviewed Builder (Tier 1)
[5]Building work to an existing dwelling	≤ $3M	N/A	System Reviewed Builder (Tier 1)
New residential apartment building construction	N/A	N/A	System Reviewed Builder (Tier 1)
Building work to a residential apartment building	≤ $3M	N/A	System Reviewed Builder (Tier 1)
Swimming pools	≤ $3M	N/A	System Reviewed Builder (Tier 1)
New dwelling construction	$3M to $5M	N/A	System Reviewed Builder (Tier 2)
Building work to an existing dwelling	$3M to $5M	N/A	System Reviewed Builder (Tier 2)
Building work to a residential apartment building	≤ $5M	N/A	System Reviewed Builder (Tier 2)
New residential apartment building construction	≤ $5M	N/A	System Reviewed Builder (Tier 2)
Swimming pools	$3M to $5M	N/A	System Reviewed Builder (Tier 2)
New dwelling construction	>$5M to < $10M	1 to 29	Medium Builder
Building work to an existing dwelling	>$5M to < $10M	1 to 49	Medium Builder
Building work to a residential apartment building	>$5M to < $10M	1 to 4	Medium Builder
New residential apartment building construction	> $5M to < $10M	1 to 49	Medium Builder
Swimming pools	>$5M to < $10M	1 to 99	Medium Builder

5 Building work refers to additions, alterations, decorative or protective treatment, extensions, maintenance, renovations, rectification, repairs etc.

Primary icare HBCF Builder segment	OJV Approved	OJN Approved	Builder Size
New dwelling construction	≥ $10M	≥ 30	Major Builder
Building work to an existing dwelling	≥ $10M	≥ 50	Major Builder
Building work to a residential apartment building	≥ $10M	≥ 5	Major Builder
New residential apartment building construction	≥ $10M	≥ 50	Major Builder
Swimming pools	≥ $10M	≥ 100	Major Builder

4 Eligibility Assessment types

4.1 Automated Assessment Type—ASR

We have created a new automated assessment type **(Automated [Builder] Scorecard Review—ASR)** to streamline the eligibility assessment process.

This new process uses an **Eligibility Score** calculated by a commercial credit bureau to indicate the level of risk a builder represents. Working with an Australian commercial bureau reporting agency and icare actuaries, we have developed this new risk-based automated underwriting method, which is a simpler, more accurate indicator of a builder's risk profile.

More than 90% of current HBCF Builders will qualify for an ASR assessment using the Eligibility Score.

> **Note:** Using the Eligibility Score enables us to automate eligibility assessments and provide an assessment outcome within two business days. This is a significant change to the way we assess eligibility and offers many benefits to builders, brokers, homeowners and icare HBCF.

4.2 ASR assessments – simpler and faster

This is part of icare's commitment to making the complex simple. The ASR model will streamline the process, reducing both the costs and onerous compliance requirements for most builders in NSW without increasing the overall risk to the Fund. It will also reduce red tape and speed up the assessment process.

4.3 New ASR assessment type requirements

To qualify for an ASR assessment, builders must meet the following requirements.

The builder must:

- hold a current NSW Builders Licence
- have an **Eligibility Score** above a defined value (please refer to section, 4.5 Eligibility Score and OJV limits)
- be requesting an OJV in line with the thresholds contained in the Builder Size Classification section (section, 3.4, Builder size classification)
- not be associated with another entity. For example: Is not subject to a GTA (Eligibility Manual, section 16.7 Group entities and Group Trading Agreements—GTA)
- not be associated with another Builder who has Eligibility (Eligibility Manual, section 9.2.3 Common directorships with eligible entities and group structures)
- not be seeking a New Residential Apartment Building construction limit greater than $1m

4.4 Eligibility Score

The Eligibility Score will also provide the basis for any future harmonisation initiatives with the [6]Independent Construction Industry Rating Tool.

More than 90% of current HBCF Builders will qualify for an ASR assessment using the Eligibility Score.

4.4.1 What factors determine the Eligibility Score?

Eligibility Scores are based on available commercial bureau data. The six key components that make up this score are listed in the table below.

Eligibility Score key variables	Description
Broker enquiries	• The total number of broker dealer enquiries made to a commercial bureau about the builder within the last five years of the score being calculated.
Credit enquiries	• The total dollar value of commercial credit enquiries made to a commercial bureau about the builder within 1-5 years of the score being calculated.
Entity type	• The structure of the builder's business (for example, sole trader, partnership, company).
Commercial adverse information	• The total number of commercial adverse information available (for example, court writs and summons, default judgements) within the last five years of the score being calculated.
Proprietorships	• Number of proprietorships associated with the builder.

6 For more information about the Independent Construction Industry Rating Tool (iCIRT), please go to: https://www.nsw.gov.au/news/icirt-apartment-rating-system.

Eligibility Score key variables	Description
Adjusted Bureau In-depth Trading History	A score calculated by a commercial bureau reporting agency which incorporates a full picture of the builder, including its proprietorships, directors and any other commercial entities associated with it. Key characteristics that form this score are: • Age of file (shows the amount of time the builder has traded) • Time since builder incorporation (shows the amount of time the builder has traded) • Number of trading addresses • Security information • Enquiry activity such as number of enquiries, frequency, time since last enquiry • Dollar amount of enquiries • Trade payment data (a common component with icare's existing scores in determining Eligibility which shows the builder's trade credit payment history) • Directors' information (a common component with icare's existing scores in determining Eligibility which shows the builder's principals' adverse information) • Public record information for instance defaults, judgements, and court writs (a common component with icare's existing scores in determining Eligibility which shows the builder's trade credit payment history) • ASIC information

4.5 Eligibility Score and OJV limits

Table 3: Eligibility Score and associated Open Job Value

Builder size	Open Job Value	Minimum Eligibility Score requirement
New Builder	$1M (maximum)	406
Tier 1		
System Reviewed Builder	$1M (minimum)	406
System Reviewed Builder	$2M	577
System Reviewed Builder	$3M (maximum)	736
Tier 2		
System Reviewed Builder	$3M (minimum)	444
System Reviewed Builder	$4M	555
System Reviewed Builder	$5M (maximum)	697

4.6 Manual assessment

4.6.1 Manual Risk Assessment criteria

When we perform a manual assessment, we examine the financial and non-financial factors of the builder's business. We have standards to measure the risk for each assessment factor. Manual Eligibility Assessments evaluate each of the following criteria, including financial and non-financial requirements:

- Builder's financial position, including Adjusted Net Tangible Assets (ANTA). Refer to our ANTA fact sheet for more information.
- Builder's history and management structure.
- Builder's technical qualifications and business capabilities.
- Existing Eligibility and conditions imposed by other licence holders (if any).

If our Eligibility Assessment determines that a builder is an acceptable risk, we grant them Eligibility and issue them with a COE. Once a builder has been granted Eligibility, they can purchase COIs for eligible projects.

In some cases, we ask higher risk builders to meet specific conditions to reduce the risk they represent. For example, we may ask the builder to inject capital into the business, or we may impose specific conditions for higher risk jobs.

> **Note:** Most HBCF Builders will be assessed using the ASR assessment process. ASR assessments depend mostly on the Eligibility Score and we don't require builders to provide financial and non-financial information. The characteristics and factors below are used in manual assessments.

4.7 Risk characteristics

- Trading Structure
- Management
- Management Information Systems[7]
- Business Planning
- Business approach to risk
- Track Record (Past Objectives)
- Track Record (Character – Moral Risk)
- Financial Characteristics (Trading Position)
- Shareholder or Owner relationship

4.8 Financial risk factors

We have provided examples for each risk factor to make them clearer.

> **Note:** The thresholds we use to determine whether risks are low, medium, or high, may vary according to the characteristics of a builder's business and the current state of the residential construction industry in NSW.

7 Management Information systems are usually internet or computer-based systems that the builder uses to record and manage their business information. These systems typically enable control, monitoring and reporting, and they help builders to see the status of their contracts and finances to efficiently manage their business. The goal of using a management information system is to increase the value and profits of the business. This is done by providing managers with timely and appropriate information allowing them to make effective decisions faster.

Financial Risk Factor
Gross profit margin (Gross profit as a percentage of Cost of Goods sold) Example: If your gross profit is $50,000 and the cost of goods sold is $125,000, then your gross profit margin is 50,000/125,000 = 0.4 = 40%
Net profit margin before tax (%) Example: If your profit before tax is $50,000 and your total sales are $500,000, then your net profit margin before tax is 50,000/500,000 = 0.1 = 10%.
Adjusted Net Tangible Assets (ANTA)/requested turnover Example: If your ANTA is $300,000 and your requested turnover is $10,000,000, then the percentage is: 300,000/10,000,000 = 0.03 = 3%
Adjusted Current Ratio (ACR) (All current assets - All current assets assigned an ANTA weighting of 0%-Speculative [8]WIP + undrawn funding facility)/(All current liabilities - [9]Progress Payments received in advance - Related liabilities treated as quasi working capital). Example: The Adjusted Current Ratio is equal to (All Current Assets minus All Current Assets assigned an ANTA weighting of 0% minus Speculative WIP plus undrawn funding facility) divided by (All current liabilities minus Progress Payments received in advance minus Related liabilities treated as quasi working capital). Example: A) All Current assets: $500,000 B) All current assets assigned a $0 ANTA weighting: $50,000 C) Speculative WIP: $100,000 D) Undrawn funding facility: $50,000 E) All current liabilities: $400,000 F) Progress Payments received in advance: $50,000 G) Related liabilities treated as quasi working capital: $50,000 ACR = (A-B-C+D)/(E-F-G) = (500,000 – 50,000 - 100,000 + 50,000)/(400,000 - 50,000 - 50,000) = 400,000/300,000 = 1.3 =1:1.3
Average Creditor days This indicates how long it takes the business to pay its creditors and is calculated by dividing the total value of the outstanding creditors by the total cost of sales and then multiplying that number by 365. Example: If the total of your outstanding creditor accounts is $50,000 and the cost of sales is $200,000, then Average Creditor Days = (50,000/200,000)*365 = 0.25*365 = 91.25 days.
Average Debtor days (Average Accounts Receivable/Average Sales per day) The average number of days it takes to collect moneys owed to the business by debtors. Example: Annual sales of $250,000 and Debtors of $25,000 Avg Dr Days= ($25,000/$250,000)*365= 36.5 days

8 In some cases, underwriters may include the value of Speculative WIP in ANTA calculations. This example assumes that Speculative WIP is not included, so the value is subtracted. For more information, refer to the HBCF Eligibility Manual section, Working capital requirements and assessment.

9 This is applicable if the underwriter has not included WIP in ANTA calculations.

Financial Risk Factor
Turnover Change from highest of past three years This percentage shows how much of an increase the requested turnover (TO) is over the highest turnover of the previous three years. Example: If your highest TO for the last three years is $8,000000 and the requested TO is $10,000,000, then the TO change is (10,000,000-8,000,000)/8,000,000 = 2,000,000/8,000,000 = 0.25 = 25%
Capital and retained earnings to turnover Example: If your [10]capital and retained earnings are $100,000 and your annual turnover is $700,000, then this percentage is 100,000/700,000 = .14 = 14%

4.9 Other risk factors

Trading Risk characteristic	Factors	Assessed risk
1. Trading Structure	• Trust • Company • Sole Trader • Partnership	• High • Modest • Low • Low
2. Entity's residential building licence held	• Nil to 1 year • 1-3 years • 3-5 years • 5-10 years • > 10 years	• Very High • High • Acceptable • Modest • Low
3. [11]Principal's residential building licence held	• Nil to 1 year • 1-3 years • 3-5 years • 5-10 years • > 10 years	• Very High • High • Acceptable • Modest • Low
4. Signs of Adverse History	• Very serious recent pattern of incidents • Serious but isolated incidents • Minor or older incidents >5 years ago • Clean history	• Very High • High • Acceptable • Low
5. Current Trade Credit Position	• Poor/Adverse • Marginal • Clean history	• High • Acceptable • Low
6. [12]Director's / Principal's Licence History	• Poor/Adverse • Marginal • Clean history	• High • Acceptable • Low

10 Capital is the registered capital with ASIC, also known as paid up capital. Retained earnings are carried forward profits or losses, from corporate activity which have not been paid out as dividends

11 For more information about risk factors associated with principals, directors, and key managers (including nominated supervisors), please refer to the HBCF Eligibility Manual, section 9.2 Assessment of the principals and key managers, and section 12 Consideration of other non-financial requirements.

12 For more information about risk factors associated with principals, directors, and key managers (including nominated supervisors), please refer to the HBCF Eligibility Manual, section 9.2 Assessment of the principals and key managers, and section 12

Trading Risk characteristic	Factors	Assessed risk
7. Past Business Closures	• Severe and unmitigated • Moderately severe and partially mitigated • Recent but appears to be fully mitigated • No previous Business Closures	• Very High • High • Acceptable • Low

5 How we assess risks

If we identify risks during our assessment, we will try to establish the cause and potential impact of those risks. In some cases, understanding the causes and impacts of potential risks helps us to assess the risk. For example:

If the business has an ACR less than 1.0.

- What is driving this poor working capital?
- Is there a proportionate spread of projects by stages of completion? Is the WIP recorded against progress payment consistent?
- Is there an issue of asset management which is not providing enough liquidity? Is it an issue of progress payment scheduling?
- Are debtor and creditor day listings and controls appropriate?

The business made a loss (negative net profit) within last three years.

- Was it a material loss or just a paper loss? For example, did the business fail to make a profit or were the losses from depreciation of assets? Is the timing of reporting relevant?
- Is this an issue that is inherent in the business or a one-off extraordinary loss? Has the business since recovered?

How many debtors have not paid for more than 30 days?

- Has there been an increasing number of debtors that have unpaid invoices more than 30 days old, or are these consistent over the last three years? Is a current aged debtors listing available to confirm that the value of debtors is realistic and that there are not any delinquent accounts?
- Are there reasons for the delay in payment from major debtors owing over 30 days?

How many creditors have not been paid for more than 30 days?

- Has there been an increase in the number of creditors or the amount that has been owed for more than 30 days, or are these consistent over the last three years?
- Is there a current listing of all creditors and their payment due dates?
- In the case of a long-established business, are the payments within supplier credit terms? Is the builder having difficulty meeting obligations as they fall due, that is, can the builder pay their bills?

The gross margins for the business are low.

- Can the business still generate net profits? If so, then the business has successfully maximised efficiency to be sustainable in a competitive market.
- Is the underlying margin issue due to the impact of franchise or marketing costs?
- Is the applicant producing a detailed costing breakdown?
- Is there poor supervision and site management with margin erosion during the construction period?

Consideration of other non-financial requirements.

5.1 How we rate risks

We use a system of scoring and weighting relative to the significance of each risk characteristic and factor. During the assessment process we may also identify other issues that affect the risk and require assessment (see Other risk factors on page 15). The assessment outcome is the combined consideration of all the characteristics and factors mentioned in this document.

Some applications may require a combination of conditions, to address different weaknesses identified during the assessment process. For example:

- The [13]Building Contract Review Program (BCRP) is used as a condition of Eligibility in the following instances (where all other relevant financial and non-financial considerations are satisfactory):
  - Where the builder has never contracted and successfully completed a new single dwelling or alteration project for a homeowner.
  - Where the builder is proposing to contract a significantly larger or more complex project than the builder's experience supports.
  - Where the builder has never contracted with a developer and successfully completed a multi-unit project (as the multi-unit contractor or key manager within a building business).
  - The BCRP is also appropriate where the Gross Margins of the builder are an issue of concern. The program can assist a builder to correctly price contracts and test actual cost against budget.
- If the business owes more money than it has ('Negative working capital') it will require a capital injection and a monitoring of cash flow through more frequent reporting.
- If the project is outside the builder's normal profile, we may need a Job Specific Deed (JSD) to cover the increased risk. This type of deed is usually requested to mitigate the risk associated with a high-value or high-risk project. For example, icare HBCF may request that job-specific deeds be given by developers because they have greater control and profit imperative over construction.

5.2 Unacceptable risk characteristics or factors that affect Eligibility

icare HBCF considers some factors to be an unacceptable risk to providing Eligibility. These factors will override all other factors in the assessment, even if the business demonstrates some strengths.

If our assessment identifies unacceptable risk factors, we will document them so that they can be reviewed.

> **Note:** please refer to the HBCF Eligibility Manual section 9.1, Unacceptable risk scenarios for details about all unacceptable risks. The list below provides only a few examples.

Unacceptable risk characteristics or factors are not limited to, but may include:

- insufficient ANTA available for security
- a recent insolvency due to mismanagement of a previous business entity by the directors/partners
- a recent insurance claim, particularly where it is due to defective building work deemed to be the builder's responsibility
- current adverse history (may include adverse claims history, adverse creditor payment history, licensing issues (in NSW or elsewhere), winding-up petitions by creditors, Business Closures, etc.)

These unacceptable risk factors will usually result in the application being declined.

13 For more information about the BCRP, please refer to the HBCF Eligibility Manual section, Building Contract Review Program—BCRP.

6 How we assess proposed increases in OJLs

If a builder requests Eligibility for a higher Open Job Limit, this indicates that they expect to increase (or grow) their turnover. Depending on the current state of the building market and other relevant factors, a request for an increase in OJL may indicate a higher level of risk. We investigate this increased OJL and take a balanced scorecard approach to the risk it presents.

The balanced scorecard approach is to assess the planning across four key areas of business:

- Financial
- Customers
- Internal Process
- Learning and Growth

We calculate the level of growth that the Builder is requesting, by comparing the requested OJL against actual business turnover. We get the actual business turnover from the 'turnover' or 'sales' figures on the Builder's last financial statements **(not the open job value defined in their current, approved COE)**.

If an increase in construction costs is driving the turnover increase, this may be about technical competence, supply restriction, or an increase in the cost of sourcing materials. If there is an increase in the volume of work, this may be about the strength of the business management and financial capacity, as well as the way the Builder generates and costs these sales.

6.1 The risks of OJL growth

Business growth, which we measure by OJL growth, is a significant cause of builder insolvency. Growth requires **capital** until increased cash flow and profits cover the increased overheads associated with the growth. Increased growth increases overhead cost, such as staff, systems, plant and machinery, vehicles, and offices, etc. Until the extra projects generate enough profit to pay these additional costs, the builder must pay the additional costs, which places pressure on working capital.

If builders hope to fund these additional costs initially through cash flow payments on the extra jobs, they can be more likely to have trouble meeting overhead costs, as progress payments may be delayed, disputed, or defaulted.

Funding growth from retained earnings helps reduce this risk. The builder can continue to use progress payments for their main purposes of paying bills and creating profit. In time, the builder can use the extra profit to help cover additional overheads costs.

6.2 How we assess the risk of OJL growth

When the increase in OJL is high, compared to previous growth, this may indicate potential risks. We will measure the potential impact of these risks to determine how significant they are. We will find out whether there are reasons we should consider when determining the risk. These are typical questions we would ask to determine the risks associated with increased OJL:

- Does the builder have enough capital to fund the requested level of growth?
- Does the builder have the management experience to manage the requested level of growth? Including:
    - managing a greater spread of projects geographically and of varying complexity
    - managing a higher number of project managers or supervisors, as with a higher number of projects, day to management of each project becomes increasingly devolved
    - sourcing and managing a higher number of subcontractors
    - co-ordinating the cash flow in relation to a higher number of jobs at different stages

- What is the source of the increased sales projections and is it likely to adversely impact on the profitability of the business?
  - For instance, if growth is being driven by marketing or advertising:
    - What is the fee structure to the marketing agent and how will it affect builder margins?
    - How much can the builder control job scheduling?
    - Is there a risk that the builder will not be able to effectively control the level of concurrent jobs?
- Is there a heightened risk that the growth request is symptomatic of the builder seeking to address cash flow shortages, through deposit collection or through front end loading a disproportionate number of contracts in early stages? Is there a risk that the marketing will promise more than the builder can deliver? We may review the work in progress (including a check that there is a suitable mix across work stages) and assess financial factors as part of our risk assessment.

If we have concerns about the risk that OJL growth presents, we may place a condition on the Builder's Eligibility to increase the frequency of management reporting.

7 Complaints and Disputes

7.1 icare HBCF Complaint and Dispute Handling Procedures

You can see an outline of the complaint and dispute handling process and also download our *HBCF Complaint and Dispute Handling Procedures for Eligibility* at the icare HBCF website: https://www.icare.nsw.gov.au/Builders-and-homeowners/disputes/lodge-a-dispute

7.2 Make a complaint about our service

You can make a complaint about our conduct, or our compliance with the legislation, guidelines, and policy, by calling us directly or lodging your complaint on the icare website:

- Phone: 13 99 22
- https://www.icare.nsw.gov.au/contact-us/complaints

7.3 Dispute a decision

Disputes include requests to review eligibility and premium determination decisions to have the outcome amended. If you don't agree with a decision, you can request a review. Brokers use BEAT, on behalf of builders, to start and manage the review process.

You can also contact us:

- Email: HBCFeligibility@icare.nsw.gov.au
- Phone: 02 7922 5437 or 02 7922 5310

> **Note:** If the builder poses an unacceptable risk to the Scheme, icare HBCF may revise, restrict, or suspend the builder's Eligibility, or issuance of a new Certificate of Insurance, while still considering their dispute.

8 Regulation and Governance

- The NSW Self Insurance Corporation (SICorp) issues insurance policies through the Home Building Compensation Fund (HBCF).
- Insurance and Care NSW (icare) administers the HBCF for SICorp.
- The State Insurance Regulatory Authority (SIRA) regulates the State Home Building Compensation scheme.

8.1 Request a regulatory compliance review

Although SIRA cannot overturn an individual decision, SIRA can review icare HBCF's compliance with the legislation, guidelines, and policy.

If you have any concerns about our conduct, please contact SIRA:

- Phone: 13 10 50
- Email: contact@sira.nsw.gov.au
- Website: https://www.sira.nsw.gov.au/disputes-and-complaints/home-building-compensation-disputes
- Postal address: Locked Bag 2906, Lisarow, NSW 2252

8.2 Lodge a complaint with SIRA

You can lodge a complaint with SIRA about how we handled your Eligibility or Premium Determination or any other aspect of our service.

SIRA contact details:

- Phone: 13 10 50
- Email: contact@sira.nsw.gov.au

9 Glossary

Term	Definition
$	Australian dollars
%	Per cent
ACR	See Adjusted Current Ratio
Adjusted Current Ratio (ACR)	The Adjusted Current Ratio is equal to (All Current Assets minus All Current Assets assigned an ANTA weighting of 0% minus Speculative WIP plus undrawn funding facility) divided by (All current liabilities minus Progress Payments received in advance minus Related liabilities treated as quasi working capital. Example: A) All Current assets: $500,000 B) All current assets assigned a $0 ANTA weighting: $50,000 C) Speculative WIP: $100,000 D) Undrawn funding facility: $50,000 E) All current liabilities: $400,000 F) Progress Payments received in advance: $50,000 G) Related liabilities treated as quasi working capital: $50,000 ACR = (A-B-C+D)/(E-F-G) = (500,000 – 50,000 - 100,000 + 50,000)/(400,000 - 50,000 - 50,000) = 400,000/300,000 = 1.3 =1:1.3
Aged debtors listing	An aged debtor list is a detailed account of which customers (debtors) owe your company money, how much they owe your company, and when they are supposed to complete payment.
ANTA	Adjusted Net Tangible Assets ANTA is a measure developed by HBCF intended to represent the net 'fire sale' position of assets, less third-party liabilities. ANTA is viewed as a 'buffer', available to the Builder business for successful withstanding of normal business disruptions or 'shocks'. For an overview of ANTA, see the ANTA Fact Sheet.
ANTA to Requested Turnover (%)	ANTA to Requested Turnover (TO) is calculated by dividing ANTA by the Total Requested TO. For example, if your ANTA is $300,000 and your Total Requested TO is 10,000,000, the percentage would be 300,000/10,000,000 = 0.03 = 3%
ASR	Automated (Builder) Scorecard Review A type of Eligibility Assessment that uses data held by commercial bureau reporting agencies about builders to algorithmically determine appropriate Eligibility Profiles based on an Eligibility Score.

Term	Definition
Average Creditor Days (days)	This indicates how long it takes the business to get paid and is calculated by dividing the total value of the outstanding creditors by the total cost of sales and then multiplying that number by 365. For example, if the total of your outstanding creditor accounts is $50,000 and the cost of sales is $200,000, then Average Creditor Days = (50,000/200,000)*365 = 0.25*365 = 91.25 days.
Average Debtor Days (days)	This indicates how long it takes a business to pay its bills and is calculated by dividing the total value of the outstanding debtors by the total cost of sales and then multiplying that number by 365. For example, if the total of your outstanding creditor accounts is $50,000 and the cost of sales is $200,000, then Average Debtor Days = (50,000/200,000)*365 = 0.25*365 = 91.25 days.
Bankruptcy Act	Bankruptcy Act 1966 (Cth)
BCRP	Building Contract Review Program A program implemented by HBCF to assist new entrants to the building industry, as well as existing Builders, to obtain Eligibility (or cover for a specific project) where the Builder is unable to provide suitable evidence of experience in the proposed building activity (see HBCF Eligibility Manual section 22 Building Contract Review Program—BCRP for further information).
BEAT	Builder Eligibility Assessment Tool HBCF-developed internet-based Eligibility assessment tool for managing COEs, Eligibility Assessments and provision of data to other core IT transaction systems including CIMS and the pricing calculator.
BPC	Builder Profile Change A type of Eligibility Assessment, usually initiated by a builder, to request a change in their: • OJL • Permitted Construction Types • Maximum contract value for a Construction Type.
Broker	Builders must use a broker to apply for Eligibility and HBC insurance. icare lists approved broker distributors and their fees on the icare website. The terms broker and distributor can be used interchangeably.
BSSP	Builder Self-Service Portal An online portal developed by HBCF that enables builders to apply for a COI online and access their HBCF information. For further information and details on how to access the BSSP, go to the icare website.
building cover contract	A contract of insurance under Part 6 of the Act or a contract or arrangement for the provision of cover by means of an alternative indemnity product

Term	Definition
Business Closure	Business Closure includes all the following events in the last five years: • A person who was subject to bankruptcy, a debt agreement or PIA within the meaning of the Bankruptcy Act (regardless of whether subsequently annulled, discharged, or released, unless the annulment was under s153 of the Bankruptcy Act) **Note:** We will only consider it an acceptable risk for Eligibility if a period of 5 years has elapsed since a key manager, director or principal of the builder was discharged from bankruptcy. If a key manager, director, or principal of the builder has been subject to bankruptcy, a debt agreement or PIA within the meaning of the Bankruptcy Act within the last 5 years, we will consider it to be an unacceptable risk for Eligibility. • A company which was a Chapter 5 body corporate within the meaning of the Corporations Act (regardless of whether that external administration was subsequently terminated, released, discharged, or otherwise ended). • A partnership where a partner was (or partners were): ◦ subject to bankruptcy, a debt agreement or PIA within the meaning of the Bankruptcy Act (regardless of whether subsequently annulled, discharged, or released, unless the annulment was under s153 of the Bankruptcy Act). ◦ a Chapter 5 body corporate within the meaning of the Corporations Act (regardless of whether that external administration was subsequently terminated, released, discharged, or otherwise ended). ◦ subject to dissolution or winding up within the meaning of the Partnership Act. • A person who was a director, secretary, shareholder, officer or key manager of any company which was a Chapter 5 body corporate within the meaning of the Corporations Act (regardless of whether that external administration was subsequently terminated, released, discharged or otherwise ended). • A company whose director, secretary, shareholder, officer or key manager was a director, secretary, shareholder, officer or key manager of any company which was a Chapter 5 body corporate within the meaning of the Corporations Act (regardless of whether that external administration was subsequently terminated, released, discharged or otherwise ended). • Suspension of a Builder's licence under section 42A *Home Building Act 1989*.
business days	Monday to Friday, excluding public holidays
Capital and retained earnings to turnover	To find this percentage you divide the Paid-up Capital and Retained Earnings by the total turnover (sales). For example, if your Paid-up Capital is $30,000 and your retained earnings are $500,000 and your total sales are $8,000,000, then (30,000 + 500,000)/8,000,000 = 530,000/8,000,000 = 0.66 = 6.6%
Cash in hand	Physical cash held, that is, petty cash and cash in the till.
CDHP for Eligibility and Premiums	HBCF Complaint and Dispute Handling Procedures for Eligibility and Premiums A document containing the established processes for handling complaints and disputes received from homeowners and Builders in relation to home building compensation cover provided by HBCF.
claim	A claim for indemnity by a claimant under a building cover contract

Term	Definition
COE	Certificate of Eligibility A certificate outlining the conditions under which HBCF has approved a Builder to purchase COIs for residential work requiring home building compensation cover. Getting a COE is the first step towards being able to purchase COIs from HBCF for residential building work in NSW. The certificate records: • Approved OJL • Approved Construction Type and associated maximum contract value limits • Date of COE issuance and expiry.
COGS	Cost of the Goods Sold
cohort	A subset of the licensed insurer's portfolio that exhibits claims experience that is statistically different from other subsets. Examples include construction type and project size.
Commercial adverse information	Commercial bureau's collect adverse information that relates to businesses. This information may include court writs and summons, default judgements, etc. icare HBCF reviews adverse information as part of our Eligibility Assessment process.
Construction Profile	A term for Construction Type limits requested or approved for a builder.
Construction Type	A SIRA-defined classification of residential construction works requiring home building compensation cover. A builder nominates which classification(s) of construction work they want to be permitted to undertake, as well as a maximum contract value for each, as part of an Eligibility Assessment. If successful, the Construction Type and maximum contract value will be recorded on the builder's COE and referred to as their Construction Profile. See *HBCF Eligibility Manual section 8.5 Construction types* for further information about the various classifications of construction work and their associated construction codes.
contract of insurance	A contract of insurance under Part 6 of the Act
contractor	A person who is required by Part 6 of the Act to enter into a building cover contract
Corporations Act	*Corporations Act 2001 (Cth)*
Credit enquiry	Related to broker dealer enquiries, if the enquiry mentions a dollar value. For example, reviewing the builder's commercial bureau file to determine if a trade credit account of $10,000 should be provided.
Current Assets	Current assets include money in the bank, petty cash, money received but not yet banked (see 'cash in hand'), money owed to the business by its customers, raw materials for manufacturing, and stock bought for re-sale. They are termed 'current' because they are expected to be used or turn into cash within 12 months.

Term	Definition
Current Liabilities	Current liabilities include bank overdrafts, short term loans (less than a year), and what the business owes its suppliers. They are termed 'current' for the same reasons outlined under 'current assets', in that they are due for payment within 12 months.
Day listings	These are lists that the business maintains to track how many days the debtors have been waiting for payment from the business and how many days the business has been waiting for payments from customers (creditors).
Debtors	Debtors are individuals or businesses that owe money to a business.
Dispute	A dispute regarding a licence holder's Eligibility decision for a contractor (Eligibility dispute). When a builder (or broker) makes a complaint about a decision, the appropriate authority will review the decision and make a recommendation. If the builder is unhappy with that determination, they can refer the complaint to icare HBCF as a dispute. A dispute regarding a licence holder's decision regarding the claim (claim dispute).
Distributor	Builders must use a broker to apply for Eligibility and HBC insurance. icare lists approved broker distributors and their fees on the icare website. The terms broker and distributor can be used interchangeably. Broker is called distributor in CIMS PolicyCenter.
Eligibility	The term used to describe the approval to enable a builder to obtain a COI for specific projects and under what conditions. A licensed contractor must hold active Eligibility before purchasing a COI for a specific project that requires home building compensation cover.
Eligibility Assessment	A term used to describe the process of underwriting a builder's application to obtain or maintain Eligibility. HBCF classifies Eligibility Assessments into different categories: • Programmed Eligibility Reviews (PERs) • Builder Profile Changes (BPCs) • Special Eligibility Reviews (SERs) • New Eligibility Reviews (NEWs) • Automated Builder Scorecard Reviews (ASRs)
Eligibility Profile	A collective term for OJV, OJN and Construction Profile. It is typically used to referred to the approved OJV, approved OJN and approved Construction Profile for a builder recorded on their COE.

Term	Definition

Eligibility Score	A number, derived from an algorithm by a commercial bureau reporting agency, based on various data sources, to determine an appropriate Eligibility Profile to offer a builder without needing to manually underwrite the builder's financial information (for example, tax returns, externally prepared financial statements).
	
	The number is derived from six key variables, outlined below, which have been assessed to be good indicators in determining the likelihood of a builder to trigger future claims (for example, having a Business Closure within the next five years):
	• Broker enquiries: The total number of broker dealer enquiries made of the builder within the last five years of the score being calculated
	• Credit enquiries: The total number of credit enquiries made of the builder within 1-5 years of the score being calculated
	• Entity type: The structure of the builder (for example, sole trader, partnership, company)
	• Commercial adverse information: The total number of commercial adverse information (for example, court writs and summons, default judgements) within the last five years of the score being calculated
	• Proprietorships: number of proprietorships associated with the builder
	• Adjusted Bureau In-depth Trading History: A score calculated by a commercial bureau reporting agency which incorporates a full picture of the builder, including its proprietorships, directors and any other commercial entities associated with it. Key characteristics that form this score are:
	  ◦ Age of file (a common component with HBCF's existing scores in determining Eligibility which shows the amount of time the builder has traded)
	  ◦ Time since builder incorporation (a common component with icare's existing scores in determining Eligibility which shows the amount of time the builder has traded)
	  ◦ Number of trading addresses (a common component with icare's existing scores in determining Eligibility)
	  ◦ Security information. Security information is sourced from the Personal Property Securities Register, which is an electronic register that allows security interests in personal property to be registered and searched in accordance with the New Zealand Personal Property Securities Act 1999 and the Australian Personal Property Securities Act 2009.
	  ◦ Enquiry activity such as number of enquiries, frequency, time since last enquiry
	  ◦ Dollar amount of enquiries
	  ◦ Trade payment data (a common component with icare's existing scores in determining Eligibility which shows the builder's trade credit payment history)
	  ◦ Directors' information (a common component with icare's existing scores in determining Eligibility which shows the builder's principals' adverse information)
	  ◦ Public record information for instance defaults, judgements, and court writs (a common component with icare's existing scores in determining Eligibility which shows the builder's trade credit payment history)
	  ◦ ASIC information

EM or Manual	HBCF Eligibility Manual A document providing the public with a key reference source and guidelines for HBCF's underwriting of home building compensation cover under Part 6 of the *Home Building Act 1989*.

Term	Definition
Extraordinary loss	An extraordinary loss is an accounting term that refers to an abnormal loss that is not generated from the ordinary business operations of a company, is infrequent in nature, and is unlikely to recur in the foreseeable future. Extraordinary losses are disclosed separately in the financial statements.
Fair Trading	NSW Fair Trading Responsible for the administration of the *Home Building Act 1989* including contracts, licensing, and dispute resolution. Where grounds for a claim under a COI issued by HBCF are not yet established (for example, the builder has not died, disappeared, or become insolvent) homeowners can access a dispute resolution service provided by Fair Trading.
Gross Margin	There are two ways of expressing gross margin. • Most builders and BEAT will benchmark margin as a mark-up on the cost of sales (on-cost margin). • Financial advisors and accountants will express the margin as a percentage of sales turnover (on-sales margin). It is essential that the correct comparison and communication be made. At icare we use the on-cost margin. For example, if your gross profit is $50,000 and the cost of goods sold is $125,000, then your gross (on-costs) margin is 50,000/125,000 = 40%
Gross profit margin ratio	This shows you the proportion of profit for every sales dollar before expenses. An acceptable gross profit margin ratio varies from industry to industry. In general, the higher the margin the better. • Gross profit margin = gross profit/sales : 1.0
Gross profit versus net profit	You can easily see the difference between your gross profit and net profit on your profit and loss statement. Your gross profit is your sales minus your cost of goods sold, but does not factor in your business operating expenses. Net profit is a better indication of profit, as it factors in your operating expenses. Example of gross profit versus net profit During May, Jeff sells 30 products at $15 each. Each product costs him $10 to produce. His overall operating costs for the month are $80. Jeff's gross and net profits for the month are as follows: • Sales = $450, cost of goods = $300 • Gross profit = sales – cost of goods = $450 - $300 = $150 • Net profit = gross profit - operating costs = $150 - $80 = $70
GTA	Group Trading Agreement A type of deed which allows for a builder's Eligibility for home building compensation cover to be assessed by combining the financials of the builder with other entities (see *HBCF Eligibility Manual section 16.7 Group entities and Group Trading Agreements*—GTA for further information).
HBC	Home Building Compensation
HBC legislation	Includes the *Act* and *Regulation* and any Insurance Guidelines made under the Act

Term	Definition
HBCF or icare HBCF	Home Building Compensation Fund HBCF is a provider of home building compensation cover under Part 6 of the *Home Building Act 1989*, a safety net for homeowners who have contracted building works but where builders/contractors are unable to honour their commitments due to insolvency, death, or disappearance. A reference to HBCF in HBCF documents includes a reference to icare and SICorp.
Home Building Act	*Home Building Act 1989 (NSW)*
icare	Insurance and Care NSW icare provides services to the insurer, SICorp, under section 10 of the *State Insurance and Care Governance Act 2015 (NSW)* in relation to the provision of insurance under Part 6 of the *Home Building Act 1989*. A reference to HBCF in this document includes a reference to icare.
JSD	Deed of Indemnity Agreement – Job Specific An agreement between HBCF and applicable party or parties to indemnify HBCF in certain circumstances against any insurance claims made for one or more specified COIs HBCF issues to the builder (see HBCF Eligibility Manual section 16.8 Job Specific Deed of Indemnity Agreement —JSD—and values for further information). This type of deed is usually requested to mitigate the risk associated with a higher-value or higher-risk project.
Key Managers	A key manager includes anyone who directs the critical decision making of the Builder business or is likely to exert influence on the business based on essential experience they hold. Key managers include, but are not limited to: • Directors or principals • Material shareholders (including parent entities and key managers of parent entities) • Nominated licensed building supervisors • Chief executive officer (CEO) and operations managers • Chief financial officer (CFO) and finance managers • Senior managers including construction managers and senior project managers • Sales and marketing managers. Builders will need to demonstrate that their key managers have the necessary experience. **Note:** For Builders who are not automatically assessed (by ASR assessment), if the principal can demonstrate a strong background and experience, the underwriter will not extend checks to key managers.
Letter of Appointment	A document intended to confirm a builder's appointment of an insurance broker to act on their behalf in relation to home building compensation cover with HBCF.
licence holder	A licensed insurer or a licensed provider under the Act.

Term	Definition
Liquidity	At its most basic level, liquidity is the ability to access cash when it is needed to pay bills as required. Liquidity risk is the risk that a business will have insufficient funds to meet its financial commitments in a timely manner, that is, the business won't be able to pay its bills.
Major Builder	A builder size classification based on the builder's approved OJL and primary builder segment. A builder may be treated as a Major Builder based on their requested OJL as part of an Eligibility Assessment (for example, a Medium Builder may submit a requested OJL, as part of a BPC, which if successful would result in the Builder being classified as a Major Builder). A Major Builder is required to undertake a PER annually (at minimum) as a condition of ongoing Eligibility for home building compensation cover with HBCF.
Major Non-Project Home Builder	A sub-classification of Major Builder where the builder's sales turnover is not predominantly generated through display homes (see HBCF Eligibility Manual section 11.4 Eligibility Assessment for Major Builders for further information).
Major Project Home Builder	A sub-classification of Major Builder where the builder's sales turnover is predominantly generated through display homes (see HBCF Eligibility Manual section 11.4 Eligibility Assessment for Major Builders for further information). Major Project Home Builders generally offer a series of standard new home designs and build a large number of homes per year.
Margin	A margin shows you how much of each sale is profit (as a percentage). It helps you make budgeting and pricing decisions. Lenders and investors use your margin to decide if you're a good candidate for finance. Margin = ((sales – cost of goods sold)/sales) x 100 For example, if you 'sell' three building projects for $25,000 each ($75,000) and it costs you $20,000 to complete each project ($60,000), then this is your margin: • ((sales – cost of goods sold)/sales) x 100 • = ((75,000-60,000)/75,000) x 100 • = (15,000/75,000) x 100 • = 0.20 • = 20%
Material loss	A realised capital loss, or material loss, occurs when an investor sells an asset for a lower price than they initially paid for it.
Medium Builder	A builder size classification based on the builder's approved OJL and primary builder segment. A builder may be treated as a Medium Builder based on their requested OJL as part of an Eligibility Assessment (for example, a Small Builder may submit a requested OJL, as part of a BPC, which if successful would result in the Builder being classified as a Medium Builder). A Medium Builder is required to undertake a PER annually (at minimum) as a condition of ongoing Eligibility for home building compensation cover with HBCF.

Term	Definition
NCAT	NSW Civil and Administrative Tribunal Provides a forum to resolve disputes and review administrative decisions. In some dispute resolution cases (for example, where the builder refuses to rectify defects) Fair Trading may recommend a homeowner refer their dispute to NCAT for resolution.
Net margin	Net margin is your gross margin less your business overhead expenses. It's your profit before you pay tax. Tax isn't included because tax rates and tax liabilities vary from business to business. Net margin can be expressed as a percentage value or as a dollar value (called net profit).
Net profit margin before tax	The pre-tax profit margin reflects the level of profit a company generates before it pays its taxes. It is calculated from the information given on a company's income statement. For example, if your profit before tax is $50,000 and the total sales is $500,000, then your net profit before tax is 50,000/500,000 = 10%.
NEW	New Eligibility Review A type of Eligibility Assessment recorded in BEAT to consider: • Applications from a builder to obtain Eligibility for the first time • Re-instatement of Eligibility for a builder following Eligibility suspension (for example, failing to submit a PER on time) or Eligibility cancellation (for example, due to builder licence expiry).
New Builder	A builder size classification for builders who fall within both of the following criteria: • Have not previously contracted direct with homeowners. • Have not previously operated their own building business in NSW or other States in Australia (including being a director/key manager of a building company).
NSW	New South Wales
OJL	Open Job Limits A collective term for OJV and OJN. Can be expressed as: • Approved OJL • Requested OJL • Used OJL

Term	Definition
OJN	Open Job Number Represent the total number of COIs a builder is permitted to have incomplete at any point in time. Can be expressed as: • Approved OJN: The total number of building projects a builder is permitted to have incomplete at any point in time. This number is recorded on a builder's COE. • Requested OJN: The total number of incomplete COIs a builder requests to be permitted to have incomplete at any point in time as part of an Eligibility Assessment. If successful, the requested OJN will become the builder's approved OJN and be recorded on their COE. • Used OJN: The total number of incomplete COIs a builder has incomplete at a point in time.
OJV	Open Job Value Represent the total contract value of COIs a builder is permitted to have incomplete at any point in time. Can be expressed as: • Approved OJV: The maximum total contract value of building projects a builder is permitted to have incomplete at any point in time. This total contract value is recorded on a builder's COE. • Requested OJV: The maximum total contract value of COIs a builder requests to be permitted to have incomplete at any point in time as part of an Eligibility Assessment. If successful, the requested OJV will become the builder's approved OJV and be recorded on their COE. • Used OJV: The total contract value of COIs a builder has incomplete at a point in time.
Paper loss	Paper Profit and Loss is temporary fluctuation in the values of investments. Also known as an unrealised loss, a loss on paper occurs when the value of an asset or security drops below its original price, but the investment is not yet sold. These profits or losses are tracked for accounting and tax purposes.
Partnership Act	*Partnership Act 1892 (NSW)*
PCA	Principal Certifying Authority

Term	Definition
PER	Programmed Eligibility Review A type of Eligibility Assessment required to be undertaken by all builders (except System Reviewed Builders) to assess compliance with minimum ANTA, working capital and other matters to maintain Eligibility (see *HBCF Eligibility Manual* section 19.1 Programmed Eligibility Review—PER for further information). System Reviewed Builders may be required to undertake a PER if they wish to maintain Eligibility (see *HBCF Eligibility Manual* section *17.5 Expired Eligibility* for further information). Most builders only need to undertake a PER on their annual financial statements. However, some builders may have a condition of Eligibility requiring them to undertake PERs more frequently (see *HBCF Eligibility Manual* section *19.1.1 Intensively monitored Builders* for further information). Builders are encouraged to request any changes in OJL and Construction Type limits in their PER to avoid needing to undertake a BPC before their next PER is due for submission.
PIA	Personal Insolvency Agreement A form of personal insolvency appointment made under Part X *Bankruptcy Act*.
Profit	The residual amount that remains after expenses (including capital maintenance adjustments, where appropriate) have been deducted from income. Any amount over and above that required to maintain the capital at the beginning of the period is profit.
Proprietorship	Proprietorship is the fact or state of being a proprietor. A sole proprietorship is the simplest and most common structure chosen to start a business. It is an unincorporated business owned and run by one individual with no distinction between the business and you, the owner.
Ratios	The most common types of ratios are: • profitability ratios – to measure business performance • liquidity ratios – to work out how solvent your business is • financing ratios – to evaluate financing and investment • turnover (efficiency) – to analyse stock turnover and cash flow
Regulation	*Home Building Regulation 2014*
Secondary dwelling	A secondary dwelling is one that is on the same land as the principal dwelling.
SER	Special Eligibility Review A type of Eligibility Assessment that the underwriter initiates to investigate one or more potential risk management issues (see HBCF Eligibility Manual section 19.2 Special Eligibility Review—SER for further information).
SICorp	NSW Self Insurance Corporation Administers several NSW Government managed funds schemes and issues certain insurances, including insurance under Part 6 of the Home Building Act 1989 and principal-arranged construction insurance. A reference to HBCF in this document includes a reference to SICorp.

Term	Definition
SIRA	State Insurance Regulatory Authority (SIRA) SIRA regulates various statutory insurance schemes in NSW including the Workers Compensation Scheme and Home Building Compensation for which HBCF is a provider of cover (see https://www.icare.nsw.gov.au/Builders-and-homeowners/disputes/fair-trading-and-sira for further information).
SIRA Guidelines	SIRA Guidelines • Home Building Compensation (Claims Handling) Insurance Guidelines • Home Building Compensation (Eligibility) Insurance Guidelines • Home Building Compensation (Premium) Insurance Guidelines • Home Building Compensation (Prudential) Insurance Guidelines • Home Building Compensation (Business Plan) Insurance Guidelines
Small Builder	A builder size classification based on the builder's approved OJL and primary builder segment (see HBCF Eligibility Manual section 10.1 Builder size classification and section 10.2 Determining a Builder's Primary icare HBCF Builder segment for further information). A builder may be treated as a Small Builder based on their requested OJL as part of an Eligibility Assessment (for example, a System Reviewed Builder may submit a requested OJL, as part of a BPC, which if successful would result in the builder being classified as a Small Builder). A Small Builder is required to undertake a PER annually (at minimum) as a condition of ongoing Eligibility for home building compensation cover with HBCF.
Stock (inventory) turnover ratio	This ratio measures how efficient you are at turning over your stock. A low ratio suggests your stock is either naturally slow moving, or you need to increase sales, so stock spends less time in storage. • Stock or inventory turnover = cost of goods sold/0.5 x (opening inventory + closing inventory) : 1.0
System Reviewed Builder	A builder size classification based on the builder's approved OJL and primary builder segment (see HBCF Eligibility Manual section 10.1 Builder size classification and section 10.2 Determining a Builder's Primary icare HBCF Builder segment for further information). A System Reviewed Builder is not required to undertake a PER annually (at minimum) as a condition of ongoing Eligibility for Home Building Compensation cover with HBCF. However, the builder is still subject to: • SERs initiated by the underwriter (see HBCF Eligibility Manual section 19.2 Special Eligibility Review—SER for further information). • A PER in order to maintain their Eligibility if it is about to expire (see HBCF Eligibility Manual section 17.5 Expired Eligibility for further information).
Turnover Change from the highest of the past three years	This percentage shows how much of an increase the requested turnover (TO) is over the highest turnover of the previous three years. For example, if your highest TO for the last three years is $8,000000 and the requested TO is $10,000,000, then the TO change is (10,000,000-8,000,000)/8,000,000 = 2,000,000/8,000,000 = 0.25 = 25%

Term	Definition
WIP	Work in Progress An asset account assigning a valuation of the raw materials, labour and overhead costs incurred for various construction projects at a particular point in time (see HBCF Eligibility Manual section 12.4 Work in Progress—WIP—reports for further information).

10 Disclaimer

Please note that this document cannot be relied upon for any purpose other than the determination of icare compliance with eligibility requirements in accordance with the Home Building Act 1989 and associated regulations. Beyond that purpose, the intention of this document is to provide general guidance in plain language and there are a variety of documents, guidelines, legislation, and other information to which should be referred to rather than relying on this document. icare HBCF will not accept any liability arising from reliance upon or use of this document.

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