Proposed Minimum Financial Requirements changes risk creating new pressures for Victorian builders

By Fordham

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Recent proposals to change Victoria's Minimum Financial Requirements (MFR) have raised significant concern across the building community. Fordham work closely with residential and commercial builders, ranging from small operators to major national groups, and in our view the reforms, while well intentioned, may place additional pressure on a sector already struggling with lacklustre consumer confidence and recent interest rate hikes crimping demand. Builders don't need more impediments to be able to do business. Rather, they will need to be laser focused on the achievement of sales and the subsequent delivery of those new homes if the State has any hope of closing the gap on the State's increasingly significant shortfall in housing supply.

Trust structures at risk under proposed NTA changes

One of the most impactful components of the proposal is the removal of Trust assets from net tangible asset (NTA) assessments. Many builders have operated successfully under discretionary or unit trust structures for decades. If implemented, excluding these assets could effectively result in a transition into Company structures, regardless of whether it suits the commercial, tax or operational needs of the business.

For smaller operators, this shift is far from simple. Transitioning a business from a Trust to a Company requires valuations, consideration of tax implications, updates to banking and property leasing arrangements, and the transfer of vehicles and other assets - often triggering stamp duty and other compliance costs. These are not administrative adjustments; they are significant structural changes that take time and resources to manage effectively.

Likely delays with Domestic Home Warranty Insurance and re-registration
Beyond the transition process, re-registration and Domestic Home Warranty Insurance (DHWI) assessments are known to create delays in normal circumstances. Under the proposed framework, insurers will be required to extend coverage to be maintained on both the former Trust and the new Company entity with only one pool of net assets to support a total insurance limit.

These delays in accrediting the new Company will slow contract signings, create uncertainty for clients, and impact sales conversions for builders. Expecting all Trust operated builders to complete these structural changes before July 2026 is unrealistic and inevitable bottlenecks and unintended business interruptions will financially impact builders who want to get to work on site, not to be drawn into more administrative distractions.

Ambiguity around new reporting requirements
The consultation paper also introduces uncertainty about additional financial reporting obligations for builders with turnover above $1 million. It is unclear whether the government expects full compliance with Australian Accounting Standards, typically reserved for larger reporting entities, or simply financial statements prepared using those principles.

For many builders, these proposed requirements could lead to the adoption of accounting standards such as AASB 16 (Leases), creating new assets and liabilities on balance sheets and increasing the cost of year-end reporting without offering meaningful operational value. Similarly, the requirement to now prepare annual Statements of Cash Flows seems like overkill. Most builders rely on practical, real time cash flow tools rather than formal statements of cash flows, which are largely year-end outputs that offer limited meaningful operational value.

Good intent, but a need for more considered timing
While the objective of strengthening financial resilience within the sector is understood and supported, the proposed changes risk slowing the industry at a time when Victoria faces a serious housing undersupply. The removal of Trust assets from NTA assessments, in particular, requires careful reconsideration. Without adjustments or deferral, the changes could create an avoidable disruption for builders, insurers and regulators alike.

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