# Joint Schedule 7 (Financial Difficulties)

## Definitions

* 1. In this Schedule, the following definitions shall apply:

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| **“Board”** | means the Supplier’s board of directors; |
| **“Board****Confirmation”** | means written confirmation from the Board in accordance with Paragraph [8](#bookmark19) of this Schedule; |
| **“Cabinet Office Markets and Suppliers Team”** | means the UK Government’s team responsible for managing the relationship between government and its Strategic Suppliers, or any replacement or successor body carrying out the same function; |
| **“Credit Rating Threshold”** | the minimum credit rating level for each entity in the FDE Group as set out in Annex [1](#bookmark23) to this Schedule; |
| **“FDE Group”** | means the Supplier, Key Subcontractors and the Guarantor (if applicable); |
| **“Financial Distress Event”** | any of the events listed in Paragraph [3.1](#bookmark3) of this Schedule; |
| **“Financial Distress Remediation Plan”** | a plan setting out how the Supplier will ensure the continued performance and delivery of the Deliverables in accordance with the Contract in the event that a Financial Distress Event occurs; |
| **“Financial Indicators”** | in respect of the Supplier, Key Subcontractors and the Guarantor, means each of the financial indicators set out at Paragraph [5.1](#bookmark17) of this Schedule; |
| **“Financial Target Thresholds”** | means the target thresholds for each of the Financial Indicators set out at Paragraph [5.1](#bookmark17) of this Schedule; |
| **“Rating Agencies”** | the rating agencies listed in Annex [1](#bookmark23) of this Schedule; |

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| **“Strategic Supplier”** | means those suppliers to the government listed at [https://www.gov.uk/government/publications/strategic-](https://www.gov.uk/government/publications/strategic-suppliers) [suppliers](https://www.gov.uk/government/publications/strategic-suppliers). |

## Warranties and duty to notify

* 1. The Supplier warrants and represents to the Relevant Authority for the benefit of the Relevant Authority that as at the Effective Date:
		1. the long term credit ratings issued for each entity in the FDE Group by each of the Rating Agencies are as set out in Annex [2](#bookmark24) to this Schedule and;
		2. the financial position or, as appropriate, the financial performance of each Supplier, Guarantor and Key- Subcontractors satisfies the Financial Target Thresholds.
	2. The Supplier shall promptly (or shall procure that its auditors promptly notify) the Relevant Authority in writing if there is any downgrade in the credit rating issued by any Rating Agency for any entity in the FDE Group (and in any event within five (5) Working Days of the occurrence of the downgrade).
	3. The Supplier shall:
		1. ***[REDACTED]***
		2. ***[REDACTED]***
		3. ***[REDACTED]***
		4. ***[REDACTED]***
	4. ***[REDACTED]***

## Financial Distress events

* 1. The following shall be Financial Distress Events:
		1. ***[REDACTED];***
		2. [***REDACTED***];
		3. ***[REDACTED***];
		4. ***[REDACTED***];
		5. ***[REDACTED***];
		6. ***[REDACTED***]; and
		7. ***[REDACTED***].

## Consequences of Financial Distress events

* 1. Immediately upon notification by the Supplier of a Financial Distress Event (or if the Relevant Authority becomes aware of a Financial Distress Event without notification and brings the event to the attention of the Supplier), the Supplier shall have the obligations and the Relevant Authority shall have the rights and remedies as set out in Paragraphs [4.3](#bookmark8) to [4.6](#bookmark13).
	2. In the event of a late or non-payment of a Key Subcontractor pursuant to Paragraph [3.1.5](#bookmark5), the Relevant Authority shall not exercise any of its rights or remedies under Paragraph [4.3](#bookmark8) without first giving the Supplier ten

(10) Working Days to:

* + 1. rectify such late or non-payment; or
		2. demonstrate to the Relevant Authority’s reasonable satisfaction that there is a valid reason for late or non- payment.
	1. ***[REDACTED]***
	2. ***[REDACTED]***
	3. ***[REDACTED]***
	4. ***[REDACTED]***
	5. ***[REDACTED]***
	6. ***[REDACTED]***

## Financial Indicators

* 1. Subject to the calculation methodology set out at Annex [3](#bookmark25) of this Schedule, the Financial Indicators and the corresponding calculations and thresholds used to determine whether a Financial Distress Event has occurred in respect of those Financial Indicators, shall be as follows:

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| **Financial Indicator** | **Calculation1** | **Financial Target Threshold:** | **Monitoring and Reporting Frequency if different from the default position set out in Paragraph** [**2.3.2**](#bookmark1) |
| **1. Turnover Ratio** | ***{Annual Revenue / Expected Annual Contract Value}*** | ***[REDACTED]*** | ***As set out in Paragraph***[**2.3.2**](#bookmark1) |
| **2. Operating Margin** | ***[Operating Margin = Operating Profit******/ Revenue]*** | ***[REDACTED]*** | ***As set out in Paragraph***[**2.3.2**](#bookmark1) |
| **3a.****Free Cashflow to Debt Ratio** | ***[Free Cash Flow******/ Net Debt]*** | ***[REDACTED]*** | ***As set out in Paragraph***[**2.3.2**](#bookmark1) |
| **3b.****Net Debt Ratio** | ***[Net Debt to EBITDA ratio = Net Debt / EBITDA]*** | ***[REDACTED]*** | ***As set out in Paragraph***[**2.3.2**](#bookmark1) |
| **4.****Net Debt + Net Pension Deficit to EBITDA ratio** | ***[Net Debt + Net Pension Deficit to EBITDA Ratio******= (Net Debt + Net Pension Deficit) / EBITDA]*** | ***[REDACTED]*** | ***As set out in Paragraph***[**2.3.2**](#bookmark1) |
| **5.****Net Interest Paid Cover** | ***[Net Interest Paid Cover = Earnings Before Interest and Tax******/ Net Interest Paid]*** | ***[REDACTED]*** | ***As set out in Paragraph***[**2.3.2**](#bookmark1) |
| **6.****Acid Ratio** | ***[Acid Ratio = (Current Assets – Inventories) / Current Liabilities]*** | ***[REDACTED]*** | ***As set out in Paragraph***[**2.3.2**](#bookmark1) |
| **7.****Net Asset value** | ***[Net Asset Value = Net Assets]*** | ***[REDACTED]*** | ***As set out in Paragraph***[**2.3.2**](#bookmark1) |
| **8.****Group Exposure Ratio** | ***[Group Exposure / Gross Assets]*** | ***[REDACTED]*** | ***As set out in Paragraph***[**2.3.2**](#bookmark1) |

Key: 1 – see Annex 3 to this Schedule which sets out the calculation methodology to be used in the calculation of each financial indicator.

## Not used

1. **Termination Rights**
	1. The Relevant Authority shall be entitled to terminate the Contract if:
		1. the Supplier fails to notify the Relevant Authority of a Financial Distress Event in accordance with Paragraph [2.3.3](#bookmark2);
		2. the Parties fail to agree a Financial Distress Remediation Plan (or any updated Financial Distress Remediation Plan) in accordance with Paragraphs [4.3](#bookmark8) to [4.5](#bookmark12); and/or
		3. the Supplier fails to comply with the terms of the Financial Distress Remediation Plan (or any updated Financial Distress Remediation Plan) in accordance with Paragraph [4.6.3](#bookmark15).

which shall be deemed to be an event to which Clause 10.4.1 of the Core Terms applies and Clauses 10.6.1 and 10.6.2 of the Core Terms shall apply accordingly.

* 1. If the Contract is terminated in accordance with Paragraph [5.1](#bookmark17), Clauses 10.6.1 and 10.6.2 of the Core Terms shall apply as if the Contract had been terminated under Clause 10.4.1.

## Primacy of Credit Ratings

* 1. Without prejudice to the Supplier’s obligations and the Relevant Authority’s rights and remedies under Paragraph [2](#bookmark0), if, following the occurrence of a Financial Distress Event, pursuant to any of Paragraphs [3.1.2](#bookmark4) to [3.1.7](#bookmark6), the Rating Agencies review and report subsequently that the credit ratings for the FDE Group entities do not drop below the relevant Credit Rating Thresholds specified for those entities in Annex [2](#bookmark24) to this Schedule, then:
		1. the Supplier shall be relieved automatically of its obligations under Paragraphs [4.3](#bookmark8) to [4.6](#bookmark13); and
		2. the Relevant Authority shall not be entitled to require the Supplier to provide financial information in accordance with Paragraph [4.3.2(b)](#bookmark10).

## Board confirmation

* 1. ***[REDACTED]***
	2. ***[REDACTED]***
	3. ***[REDACTED]***
	4. ***[REDACTED]***

## Optional Clauses

* 1. Not used.

## Annex 1: Rating Agencies and their standard Rating System

Dun & Bradstreet

## Annex 2: Credit Ratings and Credit Rating Thresholds

|  |  |
| --- | --- |
| **Entity** | **Credit rating (long term)** |
| Supplier | ***[REDACTED]*** |
| Guarantor | ***[REDACTED]*** |
| Key Subcontractor | ***[REDACTED]*** |

**Annex** **3: Calculation methodology for Financial Indicators**

The Supplier shall ensure that it uses the following general and specific methodologies for calculating the Financial Indicators against the Financial Target Thresholds:

## General methodology

1. *Terminology*: The terms referred to in this Annex are those used by UK companies in their financial statements. Where the entity is not a UK company, the corresponding items should be used even if the terminology is slightly different (for example a charity would refer to a surplus or deficit rather than a profit or loss).
2. *Groups*: Where the entity is the holding company of a group and prepares consolidated financial statements, the consolidated figures should be used.
3. *Foreign currency conversion*: Figures denominated in foreign currencies should be converted at the exchange rate in force at the relevant date for which the Financial Indicator is being calculated.
4. *Treatment of non-underlying items*: Financial Indicators should be based on the figures in the financial statements before adjusting for non- underlying items.

## Specific Methodology

The tables below set out the calculation methodology to be used in the calculation of each Financial Indicator.

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| **Financial Indicator / Metric** | **Specific Methodology** |
| **1. Turnover Ratio****{**Annual Revenue / Expected Annual Contract Value} | Revenue should be shown on the face of the Income Statement. It should exclude the entity’s share of the revenue of joint ventures or associates.The Turnover Ratio is used to understand how large the contract is compared to the annual revenue of the Supplier for the contract. A larger number might suggest that the Supplier can accommodate the contract more easily and be better able to deliver the contract. |
| **2. Operating Margin**[Operating Profit / Revenue] | The elements used to calculate the Operating Margin should be shown on the face of the Income Statement in a standard set of financial statements.Figures for Operating Profit and Revenue should exclude the |

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|  | entity’s share of the results of any joint ventures or Associates.Where an entity has an operating loss (i.e. where the operating profit is negative), Operating Profit should be taken to be zero. |
| **3A. Free Cash Flow to Net Debt Ratio****[**Free Cash Flow / Net Debt]**OR** | Shows what percentage of the Supplier’s debt could be repaid in one year if all free cash flow was used to repay debt.*“****Free Cash Flow****” = Net Cash Flow from Operating Activities –**Capital Expenditure**“****Capital Expenditure****” = Purchase of property, plant & equipment + purchase of intangible assets**“****Net Debt****” = Bank overdrafts + Loans and borrowings + Finance Leases + Deferred consideration payable – Cash and cash equivalents*The majority of the elements used to calculate the Free Cash Flow to Net Debt Ratio should be shown on the face of the Statement of Cash Flows and the Balance Sheet in a standard set of financial statements.*Net Cash Flow from Operating Activities*: This should be stated after deduction of interest and tax paid.*Capital expenditure*: The elements of capital expenditure may be described slightly differently but will be found under ‘Cash flows from investing activities’ in the Statement of Cash Flows; they should be limited to the purchase of fixed assets (including intangible assets) for the business and exclude acquisitions. The figure should be shown gross without any deduction for any proceeds of sale of fixed assets.*Net Debt*: The elements of Net Debt may also be described slightly differently and should be found either on the face of the Balance Sheet or in the relevant note to the financial statements. All interest bearing liabilities (other than retirement benefit obligations) should be treated as borrowings as should, where disclosed, any liabilities (less any assets) in respect of any hedges designated as linked to borrowings (but not non- designated hedges). Borrowings should also include balances owed to other group members.Deferred consideration payable should be included in Net Debt despite typically being non-interest bearing.Cash and cash equivalents should include short-term financial investments shown in current assets.Where Net debt is negative (i.e. an entity has net cash), the relevant Financial Target Threshold should be treated as having been met. |

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|  |  | OR |
| **3B. Net Debt EBITDA Ratio** | **to** | *“****Net Debt****” = Bank overdrafts + Loans and borrowings + Finance leases + Deferred consideration payable – Cash and cash equivalents* |
| [Net Debt to EBITDA Ratio] |  | *“****EBITDA****” = Operating profit + Depreciation charge + Amortisation charge* |
|  |  | The majority of the elements used to calculate the Net Debt to EBITDA Ratio should be shown on the face of the Balance sheet, Income statement and Statement of Cash Flows in a standard set of financial statements but will otherwise be found in the notes to the financial statements. |
|  |  | *Net Debt*: The elements of Net Debt may be described slightly differently and should be found either on the face of the Balance Sheet or in the relevant note to the financial statements. All interest bearing liabilities (other than retirement benefit obligations) should be included as borrowings as should, where disclosed, any liabilities (less any assets) in respect of any hedges designated as linked to borrowings (but not non- designated hedges). Borrowings should also include balances owed to other group members. |
|  |  | Deferred consideration payable should be included in Net Debt despite typically being non-interest bearing. |
|  |  | Cash and cash equivalents should include short-term financial investments shown in current assets. |
|  |  | Where Net debt is negative (i.e. an entity has net cash), the relevant Financial Target Threshold should be treated as having been met. |
|  |  | *EBITDA*: Operating profit should be shown on the face of the Income Statement and, for the purposes of calculating this Financial Indicator, should include the entity’s share of the results of any joint ventures or Associates. *The depreciation and amortisation charges for the period may be found on the face of the Statement of Cash Flows or in a Note to the Accounts. Where EBITDA is negative, the relevant Financial Target Threshold should be treated as not having been met (unless Net Debt is also negative, in which case the relevant Financial Target Threshold should be treated as having been met).* |
| **4. Net Debt + Net Pension Deficit to EBITDA ratio** | **“*Net Debt*”** *= Bank overdrafts + Loans and borrowings + Finance leases + Deferred consideration payable – Cash and cash equivalents* |
| [(Net Debt + Net Pension | **“*Net Pension Deficit*”** *= Retirement Benefit Obligations –* |

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| Deficit) / EBITDA ratio] | *Retirement Benefit Assets****“EBITDA”*** *= Operating profit + Depreciation charge + Amortisation charge*The majority of the elements used to calculate the Net Debt + Net Pension Deficit to EBITDA Ratio should be shown on the face of the Balance sheet, Income statement and Statement of Cash Flows in a standard set of financial statements but will otherwise be found in the notes to the financial statements.*Net Debt*: The elements of Net Debt may be described slightly differently and should be found either on the face of the Balance Sheet or in the relevant note to the financial statements. All interest bearing liabilities (other than retirement benefit obligations) should be included as borrowings as should, where disclosed, any liabilities (less any assets) in respect of any hedges designated as linked to borrowings (but not non- designated hedges). Borrowings should also include balances owed to other group members.Deferred consideration payable should be included in Net Debt despite typically being non-interest bearing.Cash and cash equivalents should include short-term financial investments shown in current assets.*Net Pension Deficit*: Retirement Benefit Obligations and Retirement Benefit Assets may be shown on the face of the Balance Sheet or in the notes to the financial statements. They may also be described as pension benefits / obligations, post- employment obligations or other similar terms.Where ‘Net Debt + Net Pension Deficit’ is negative, the relevant Financial Target Threshold should be treated as having been met.*EBITDA*: Operating profit should be shown on the face of the Income Statement and, for the purposes of calculating this Financial Indicator, should include the entity’s share of the results of any joint ventures or Associates.The depreciation and amortisation charges for the period may be found on the face of the Statement of Cash Flows or in a Note to the Accounts.Where EBITDA is negative, the relevant Financial Target Threshold should be treated as not having been met (unless ‘Net Debt + Net Pension Deficit’ is also negative, in which case the relevant Financial Target Threshold should be regarded as having been met). |

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| **5. Net Interest Paid Cover**[Earnings Before Interest and Tax / Net Interest Paid] | *“Earnings Before Interest and Tax” = Operating profit “Net Interest Paid” = Interest paid – Interest received*Operating profit should be shown on the face of the Income Statement in a standard set of financial statements and, for the purposes of calculating this Financial Indicator, should include the entity’s share of the results of any joint ventures or Associates.Interest received and interest paid should be shown on the face of the Cash Flow statement.Where Net interest paid is negative (i.e. the entity has net interest received), the relevant Financial Target Threshold should be treated as having been met. |
| **6. Acid Ratio**[(Current Assets – Inventories)/ Current Liabilities} | All elements that are used to calculate the Acid Ratio are available on the face of the Balance Sheet in a standard set of financial statements. |
| **7. Net Asset Value**[ Net Assets ] | Net Assets are shown (but sometimes not labelled) on the face of the Balance Sheet of a standard set of financial statements. Net Assets are sometimes called net worth or ‘Shareholders’ Funds’. They represent the net assets available to the shareholders. Where an entity has a majority interest in another entity in which there are also minority or non-controlling interests (i.e. where it has a subsidiary partially owned by outside investors), Net Assets should be taken inclusive of minority or non-controlling interests (as if the entity owned 100% of such entity). |

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| **8. Group Exposure Ratio****[**Balances owed by Group Undertakings + Contingent liabilities assumed in support of Group Undertakings**]** | *“****Group Exposure****” = Balances owed by Group Undertakings + Contingent liabilities assumed in support of Group Undertakings**“****Gross Assets****” = Fixed Assets + Current Assets**Group Exposure*: Balances owed by (ie receivable from) Group Undertakings are shown within Fixed assets or Current assets either on the face of the Balance Sheet or in the relevant notes to the financial statements. In many cases there may be no such balances, in particular where an entity is not a member of a group or is itself the ultimate holding company of the group.Contingent liabilities assumed in support of Group Undertakings are shown in the Contingent Liabilities note in a standard set of financial statements. They include guarantees and security given in support of the borrowings of other group companies, often as part of group borrowing arrangements. Where the contingent liabilities are capped, the capped figure should be taken as their value. Where no cap or maximum is specified, the relevant Financial Target Threshold should automatically be regarded as not having been met.In many cases an entity may not have assumed any contingent liabilities in support of Group Undertakings, in particular where an entity is not a member of a group or is itself the ultimate holding company of the group.*Gross Assets*: Both Fixed assets and Current assets are shown on the face of the Balance Sheet |

**ANNE****X 4: BOARD CONFIRMATION**

 ***[REDACTED]***

**ANNEX 5: OPTIONAL CLAUSES FOR BRONZE CONTRACTS**

NOT USED