

Credit Risk Management - Council Policy

Effective Date	17 August 2016
Policy Owner	Finance
Link to Corporate Plan	Sustainable Organisation
Review Date	July 2026
Related Legislation	<ul style="list-style-type: none"> • <i>Local Government Act 2009</i> • <i>Local Government Regulation 2012</i> • <i>Information Privacy Act 2009</i> • <i>National Energy Retail Law (Queensland) Act 2014</i> • <i>Gas Supply Act 2003</i>
Related Documents	<ul style="list-style-type: none"> • Commercial Works - Council Policy • Accounts Receivable Debt Collection - Council Policy • Gas Charges and Fees Collection - Council Policy

Policy Version	Approval Date	Adopted/Approved
1	17/08/2016	Ordinary Meeting of Council
2	18/11/2020	Ordinary Meeting of Council
3	21/06/2023	Special Meeting of Council - Adopt 2023/24 Budget

This policy may not be current as Council regularly reviews and updates its policies. The latest controlled version can be found in the policies section of Council's intranet or Website. A hard copy of this electronic document is uncontrolled.

Credit Risk Management - Council Policy

1. PURPOSE

The purpose of this policy is to:

- (1) define the level of credit risk Council is willing to take with respect to the various Council activities;
- (2) provide transparency by defining the obligations of credit facility holders;
- (3) provide a consistent approach to managing the credit of Council;
- (4) provide equity by applying consistent processes to account holders (creditors); and
- (5) comply with all relevant legislation including, but not limited to, the Queensland *Local Government Act 2009* and *Local Government Regulation 2012* and *Information Privacy Act 2009*.

2. SCOPE

This policy applies to all goods and services (excluding rates and charges) provided by Council which may result in the provision of credit to an outside party.

The following entities are exempted from the Policy:

- (1) Local Governments;
- (2) Commonwealth or State Government Departments;
- (3) Commonwealth, State, or Local Government owned enterprises; and
- (4) Community groups within the Western Downs Regional Council area.

The Policy excludes any credit risk associated with the payment of rates and utility charges (excluding gas). The Rates and Charges Collection Policy - Council Policy deals with the collection of unpaid rates and utility charges.

3. POLICY

Council understands that in providing a variety of services to the community, it is essential to provide credit for certain customers. Council will manage credit risk in a manner which ensures that losses on account of providing services to its customers, other than for rates and utility charges, does not result in unnecessary losses to Council.

- 3.1 Council's appetite for credit risk and its credit policy responses will vary with businesses and activities that Council offers. These are defined in the following table.

Business/Activity	Creditor Characteristics	Risk Appetite	Risk Management/Credit Policy Response
Waste Management	Small number of high value customers together with a large number of small customers	<ul style="list-style-type: none"> • Moderate Risk appetite for the small customers. • Minimal Risk appetite for large customers 	A credit application must be provided by all new applicants. A credit check may be required by Council
Commercial Works/Private Works	A small number of high value customers together with a small number of small customers	<ul style="list-style-type: none"> • Moderate Risk appetite for the small customers • Minimal Risk appetite for large customers 	<p>All commercial works for private individuals are to be paid in advance of work commencing.</p> <p>Commercial works for all entities with an estimated or quoted value of less than \$10,000 will be required to be paid in advance.</p> <p>Commercial works for all entities with an estimated or quoted value in excess of \$10,000 may require a credit check by Council.</p> <p>Where Council's potential credit risk is greater than \$50,000, Council officers must consider the use of bank guarantees and or trust fund deposits to reduce Council's credit risk.</p> <p>Progress payments are to be made in strict compliance with Council's contract conditions. If the party requesting</p>



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Business/Activity	Creditor Characteristics	Risk Appetite	Risk Management/Credit Policy Response
			<p>the work fails to meet a payment deadline, Council staff will cease work.</p> <p>If Council officers believe the credit risk associated with Commercial/Private Works cannot be satisfactorily managed, Council must not enter into a contract with the party.</p>
Quarry/ Gravel Pit Products	At times, a small number of high value customers together with a small number of small customers	<ul style="list-style-type: none"> Moderate Risk appetite for the small customers Minimal risk appetite for large customers 	A credit application must be provided by all new applicants. A credit check may be required by Council. A credit limit is to be applied to the large creditors.
Saleyards	Small number of high value customers	<ul style="list-style-type: none"> Minimal Risk appetite 	Invoices will be issued to customers. Non payment within invoices terms will result in customer being refused access as an agent.
Airport and Aerodrome landing fees	A small number of high value customers together with a small number of small customers	<ul style="list-style-type: none"> Moderate Risk appetite for small customers Minimal Risk appetite for large customers 	<p>A credit application must be provided by all new customers where the expected fees are greater than \$1,000 per month. A credit check may be required by Council.</p> <p>Council cannot deny landing access.</p>
Standpipe users	A moderate number of small value customers	<ul style="list-style-type: none"> Moderate Risk appetite 	<p>Customers are issued with a prepaid key to access the standpipe. The customer is responsible for ensuring sufficient credit is held on the key to access water.</p> <p>Large commercial users may request to be issued an account for standpipe usage. A credit application must be provided by all new customers where the expected use is greater than \$1,000 per month</p>
Third Party Credit Collection Providers (for example, Avdata – Standpipes and Aerodromes)	A small number of high value customers	<ul style="list-style-type: none"> Minimal Risk appetite 	Monitor the performance of Third Party Credit Collection Provider in receipting funds to Council.
Hire/Lease/Rent of Council Facilities/ Properties (Excluding Community Housing)	A small number of small value customers	<ul style="list-style-type: none"> Moderate Risk appetite for the small value customers 	<p>The applicant will pay the hire fee and a security deposit on booking the facility.</p> <p>A refund of the deposit will be made after the facility has been used. Damages may be withheld from the deposit.</p>
Gas Charges	A small number of high value customers (80 to 100) and a large number of very small value customers	<ul style="list-style-type: none"> Moderate Risk appetite for the very small customers Minimal Risk appetite for large customers 	<p>Customers who request connection to Council's gas supply are required to apply using Council's Gas Connection Form. Credit checks to be applied to all new connections applicable to tenanted properties. Council officers at their discretion may refuse to connect gas.</p> <p>Please refer Gas Charges and Fees Collection Policy for further details.</p>

3.2 Where Council is willing to take a bank guarantee to manage its credit risk, it must only take it with a financial institution rated A with a neutral outlook or better. At no time, should an insurance bond be used.

3.3 If a credit assessment needs to be undertaken, Council must either use QTC or a credit reporting bureau.



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4. POLICY PROCEDURES AND DETAILS

Credit Applications

Customers who have requested and, or are required by Council to establish credit facility are to apply in writing using Council's Credit Application. Applications for a credit facility can only be made by individuals, companies, or registered associations. The Credit Application must be lodged with Council and approved by the Chief Executive Officer (or delegate) before goods or services are provided. The application will be assessed by the Chief Executive Officer (or delegate) who will determine whether or not to grant the credit facility and the extent of the credit limit.

The Chief Executive Officer (or delegate) may approve a credit facility, without a credit check however, a Credit Application is required to be completed.

Evaluating Creditworthiness of Applications

In determining whether to provide credit, the following may be considered:

- (1) amount;
- (2) credit quality including a review of financial statements;
- (3) credit references;
- (4) public records;
- (5) bank guarantees; and
- (6) other information provided by the applicant.

Depending on the size of the credit limit requested or the nature of the arrangement, Council may request a credit check by as part of the approval process.

All new gas connection applications attached to tenanted properties, require an acceptable credit check and approval prior to connections.

Approval Framework

Requested Credit Limit	Credit Application Completed	Check References	Obtain Credit Review	Initial Terms	Credit Limit	Approval
\$1,000 per month	Yes	Yes	No (Excluding Gas Accounts)	Net 30 days	\$1,000 per month	Revenue
\$1,000 to \$10,000	Yes	Yes	Basic Review or Full Review depending on assessment	Net 30 days	\$1,000 to \$10,000	Less than \$2,000 per month Revenue Greater than \$2,000 per month the Chief Financial Officer
> \$10,000	Yes	Yes	Full Review	Net 30 days	>\$10,000	Chief Financial Officer

Withdrawal or Cancellation of Credit Facility

Large and small creditors are to pay within thirty (30) days of invoice unless a change in terms is agreed. If a creditor does not pay within the required timeframe, they will be refused access to Council services.

The Chief Financial Officer (or delegate) is authorised to withdraw or cancel a credit facility (temporarily or permanently) for any customer who fails to meet the terms of payment. If access is reinstated, a deposit or a bank guarantee may be required.

Increases to Credit Limits

If the credit holder requires a credit limit increase, then the credit facility holder must make application to Council, for a credit limit increase using Council's Credit Application Form. The credit limit will then be assessed taking into consideration the amount of the limit increase and the conduct of the account. Further credit checks may be required by Council.

