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# Credit Risk Management - Council Policy

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<b>Policy Owner</b>	<i>Finance</i>
<b>Link to Corporate Plan</b>	<i>Financial Sustainability</i>
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<b>Related Legislation</b>	<i>Queensland Local Government Act 2009 Local Government Regulation 2012 Information Privacy Act 2009 National Energy Retail Law (Queensland) Act 2014 Gas Supply Act 2003</i>
<b>Related Documents</b>	<i>Western Downs Regional Council - Register of Delegations Commercial Works - Council Policy Accounts Receivable Debt Collection - Council Policy Gas Charges and Fees Collection - Council Policy Rates and Charges Collection - Council Policy</i>

<b>Policy Version</b>	<b>Approval Date</b>	<b>Adopted/Approved</b>
<i>1</i>	<i>17/08/2016</i>	<i>Ordinary Meeting of Council</i>
<i>2</i>	<i>18/11/2020</i>	<i>Ordinary Meeting of Council</i>

*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

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## 1. PURPOSE

The objectives of this policy are to:

- define the level of credit risk Council is willing to take with respect to the various Council activities
- provide transparency by defining the obligations of credit facility holders
- provide a consistent approach to managing the credit of Council
- provide equity by applying consistent processes to account holders (creditors), and
- 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*.

*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.*

Council understands that in providing a variety of services to the community, it is essential to provide credit for certain customers. In many cases, these services could be provided privately. However, Council has historically operated these services and, therefore, for the purposes of economic efficiency it is better to utilise existing services.

In many instances, users of these services can have significant monthly accounts.

The aim of this policy to ensure that losses on account of providing services to 3rd parties, other than for rates and utility charges, does not result in unnecessary losses to Council.

## 2. SCOPE

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

The following entities are exempted from the Policy:

- Local Governments
- Commonwealth or State Government Departments
- Commonwealth, State or Local Government owned enterprises
- Community groups within the Western Downs Regional Council area, and
- Credit provided through a third party credit provider (e.g. financial institution) as long as the credit provider has an A with Neutral Outlook rating or better.

## 3. POLICY

- 3.1 Council's appetite for credit risk will vary with the exposure Council has to the creditor or a group of creditors. Council's risk appetite and credit policy response for the various businesses/activities that Council undertakes is defined in the following table.



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Business/Activity	Creditor Characteristics	WDRC Risk Appetite	Risk Management/Credit Policy Response
Waste Management	Small number of high value creditors together with a large number of small creditors	<ul style="list-style-type: none"> <li>• Moderate Risk appetite for the small creditors.</li> <li>• Minimal Risk appetite for large creditors e.g. JJ Richards</li> </ul>	<p>For new applicants that are expected to have an exposure of greater than \$5,000 per month, a Credit Application is to be completed with an appropriate credit check conducted if required by Council. If greater than \$1,000 per month, A credit application must be provided.</p> <p>Large and small creditors are to pay within 30 days of invoice unless a change in terms is agreed to otherwise to be locked out.</p> <p>With respect to the Kerbside Collection Operator or a Transfer Station Operator or a Landfill Facility, Council will net outstanding invoices against monies owed to these parties.</p>
Commercial Works/Private Works	A small number of high value creditors together with a small number of small creditors	<ul style="list-style-type: none"> <li>• Moderate Risk appetite for the small creditors</li> <li>• Minimal Risk appetite for large creditors</li> </ul>	<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 and up to \$50,000, will consider completing a credit check. To be conducted if required.</p> <p>For exposures over \$50,000, a credit check will be conducted.</p> <p>For larger potential exposures of greater than \$50,000 as part of contracting with another party, Council officers must consider the use of bank guarantees and 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 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 creditors together with a small number of small creditors	<ul style="list-style-type: none"> <li>• Moderate Risk appetite for the small creditors</li> <li>• Minimal risk appetite for large creditors</li> </ul>	<p>For businesses that wish to open an account with the quarry and expect to have an exposure of greater than \$10,000 per month, a Credit Application is to be completed by large creditors(i.e. greater than \$1,000 per month) with the appropriate credit check conducted, if, required by Council.</p> <p>A credit limit is to be applied to the large creditors.</p>



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Business/Activity	Creditor Characteristics	WDRC Risk Appetite	Risk Management/Credit Policy Response
			<p>Large and small creditors are to pay within 30 days of invoice unless a change in terms is agreed.</p> <p>If a creditor does not pay within the required timeframe (usually 30 days), they will be refused access.</p> <p>If access is reinstated, Council staff are to consider the requirement for a deposit or a bank guarantee.</p> <p>With respect to Council contractors, Council has the capacity to net outstanding invoices against monies owed to these parties.</p>
Saleyards	Small number of high value creditors	Minimal Risk appetite	<p>Creditors (stock agents) are to pay within 30 days of invoice unless a change in terms is agreed; otherwise they will be refused access as an agent.</p>
Airport and Aerodrome landing fees	A small number of high value creditors together with a small number of small creditors	<ul style="list-style-type: none"> <li>Moderate Risk appetite for small creditors</li> <li>Minimal Risk appetite for large creditors</li> </ul>	<p>Credit application to be provided for all users where the expected fees are greater than \$1,000 per month. WDRC cannot deny landing access.</p> <p>Creditors (i.e. commercial airlines, charters and individuals) are to pay within 30 days of receipt of invoice.</p> <p>If there is a failure to pay by the commercial airlines and charters, Council staff to notify the companies (namely Origin, APLNG, BGC and Santos) who provide the bulk of passengers that landing fees are not being paid.</p> <p>If not paid, seek to formalise an arrangement with the above companies to deduct landing fees from bills paid to commercial airlines or charters.</p> <p>Follow up with small customers (minimal risk).</p>
Standpipe users	A moderate number of small value users	<ul style="list-style-type: none"> <li>Moderate Risk appetite</li> </ul>	<p>A key is provided to users of standpipes upon successful completion of a credit application where expected monthly use is greater than \$1,000.</p> <p>Individual creditors are to pay within 30 days of receipt of invoice.</p> <p>If a creditor fails to pay within 30 days, their key will be withdrawn and will not be restored until such time as the debt is paid in full.</p>
Third Party Credit Collection Providers (e.g., Avdata - Standpipes & Aerodromes)	A small number of high value creditors	<ul style="list-style-type: none"> <li>Minimal Risk appetite</li> </ul>	<p>Monitor the performance of 3rd Party Credit Collection Provider in receipting funds to Council.</p>

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Business/Activity	Creditor Characteristics	WDRC Risk Appetite	Risk Management/Credit Policy Response
Hire/Lease/Rent of Council Facilities/Properties (Excluding Community Housing)	A small number of small value creditors	<ul style="list-style-type: none"> <li>Moderate Risk appetite for the small value creditors</li> </ul>	<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 and after adjusting for any damages.</p>
Gas Charges	A small number of high value creditors (80 to 100) and a large number of very small value creditors	<ul style="list-style-type: none"> <li>Moderate Risk appetite for the very small creditors</li> <li>Minimal Risk appetite for large creditors</li> </ul>	<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>Larger (commercial and Industrial customers) pay monthly.</p> <p>If accounts remain unpaid greater than 21 days from due date, the supply will be disconnected. Any reconnection will only be made if the balance outstanding plus reconnection fee is paid in full. In addition a bank guarantee equal to 2 months' supply may be required from commercial or industrial customers for reconnection to occur. Please refer Gas Charges and Fees Collection Policy for further details.</p>
Water meter Connections	Small volume of low value transactions	Minimal Risk appetite	Connection will not be completed until fee is paid.
Cemetery and Funerals	Small volume of low value transactions	Minimal Risk appetite	Fees are to be paid on application
Searches	Small volume of low value transactions	Minimal Risk appetite	<p>Search fees are to be paid on application.</p> <p>If bulk searches are required, Council officers will request credit card details from the legal firm etc. requesting the search.</p>
Building, Planning, Plumbing Applications	Small volume of moderate value transactions. A small number of larger transactions	Minimal Risk appetite	Assessment will not commence until the fee is paid.

3.2 Where Council is willing to take a bank guarantee to manage its credit risk, it should 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 should 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 (Excluding gas customers) can only be made by individuals, companies or registered associations. The Credit Application, excluding gas customers, of \$1,000 or greater 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 will be considered:

- amount
- credit quality including a review of financial Statements
- credit references
- public records
- bank guarantees
- other information provided by the applicant.

Depending on size of the 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 or Accounts Payable
\$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 or Accounts Payable  Greater than \$2,000 per month the CFO
> \$10,000	Yes	Yes	Full Review	Net 30 days	>\$10,000	CFO

### Withdrawal or Cancellation of Credit Facility

The Chief Finance 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.

### Increases to Credit Limits



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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 amount of the limit increase, conduct of the account, capacity to pay, reputation etc.

