



CREDIT RISK POLICY

Document No:
A4679239

1. Objectives:

The purpose of this policy is to define an appropriate level of counterparty risk for Council and to minimise, as far as practical, the financial impacts to Council of counterparty failure.

2. Regulatory Authority:

Relevant Legislation

Local Government Act 2009

Local Government Regulation 2012

Statutory Bodies Financial Arrangements Act 1982

Regulatory Bodies

Australian Prudential Regulation Authority (APRA)

Related Policies

This policy does not explicitly cover all areas of credit risk. Credit risk is also addressed in the following policies :

- Credit Policy
- Investment Policy
- Debt Policy

3. Human Rights Commitment

Ipswich City Council (Council) has considered the human rights protected under the *Human Rights Act 2019 (Qld)* (the Act) when adopting and/or amending this policy.

When applying this policy, Council will act and make decisions in a way that is compatible with human rights and give proper consideration to a human right relevant to the decision in accordance with the Act.

4. Scope:

4.1 Application

Council utilises a ratings based approach to determine an acceptable level of exposure to credit risk with regards to financial instruments. These ratings apply to the acceptance of cheques, bank guarantees, undertakings, letters of credit and contractual payments.

4.2 Acceptance of Cheque Payments

Council will accept personal, company and bank cheques as a method of payment for products and services, rates and utility charges and bonds. Cheques will only be accepted from a relevant party and for the value of that cheque as referred to in the following Table 1.

The minimum requirements detailed in Table 1 do not apply to cheque payments for

rates and utility charges or sundry debtor accounts. Actual payment for products and services by cheque is deemed to have been made only when cleared funds have been credited to Council's banking accounts.

Table 1 – Minimum Requirements

Value of Cheque	Drawer of Cheque		
	Individuals	Company/Trustee	Government Organisation
Less than \$100,000	A	A	A
\$100,000 up to \$500,000	B	A	A
\$500,000 up to \$1,000,000	B	A	A
In excess of \$1,000,000	C	C	A

Where: A = Personal, Company, Government or Trust Cheque

B = Bank Cheque issued by an Authorised Deposit-Taking Institution regulated by APRA.

C = Bank Cheque issued by an Authorised Deposit-Taking Institution regulated by APRA with a long term rating of A- or better.

4.3 Payments for Development – Developer Contributions

Council will only accept, at Council's sole discretion, payment for Developer Contributions by way of Bank Cheque, Cash or Electronic Funds Transfer (EFT). Personal and/or company cheques will not be accepted as payment for Developer Contributions.

4.4 Bank Guarantees

Council may accept a bank guarantee or similar financial security:

1. On terms acceptable to Council, from an individual, company, trustee or government organisation as consideration for, but not limited to, the following:
 - Contractual Performance
 - Building Reinstatement Performance Bonds
 - Security Bonds – Site and Roads
 - Development Performance Bonds
 - Uncompleted Works Bonds
 - Maintenance Security Bonds
 - Siltation and Erosion Bonds
 - External Works Performance Bonds, or
 - Landscaping Bonds

2. Must be:
 - In Australian dollars, and
 - Unconditional, and
 - Issued by a bank licensed to operate in Australia¹ and is listed as an Authorised Deposit-Taking Institution which is regulated by APRA, or

¹ This may be an Australian owned bank, a foreign owned bank, or a foreign bank licenced to operate as a branch in Australia

- Issued by an institution that is listed as a general insurer under the regulation of APRA, and
- Issued by an appropriately rated organisation or institution in accordance with Table 2, or
- Issued by any other organisation or institution that may be approved by the Chief Financial Officer from time to time.

Table 2 – Minimum Rating Requirements

Value of Guarantee (or similar financial security)	Minimum Financial Rating Required
Up to \$500,000	BBB-
\$500,000 to \$5 million	A-
\$5 million and above	AA-

Council reserves the sole right to:

1. Review the suitability of any bank guarantee held in lieu of payment for a bond should the circumstances of the issuing organisation or institution change and require an upgrade or approve a downgrade of the bank guarantee as it considers appropriate, and
2. Take into account any other relevant issue, criteria or matter when considering whether or not to accept a guarantee or similar financial security including, but not limited to, the terms and conditions of a guarantee or similar financial security.
3. Limit its exposure to any organisation or institution to a maximum of 15% with regards to guarantees or similar financial securities and as such request any further guarantees or similar financial securities be issued by an alternative organisation or institution.

4.5 Contractual Relationships

Council may choose to enter into a joint venture, contractual alliance, partnership or other similar business relationship in accordance with the *Local Government Act 2009* and the *Statutory Bodies Financial Arrangements Act 1982*.

When considering to enter into any business relationship of the kind referred to in this policy Council reserves the right to consider any relevant matter relating, but not limited to, the credit worthiness of the counterparty on an individual basis as a part of the overall assessment and approval of the business relationship.

5. Definitions:

Credit risk is the risk that Council may suffer financial loss due to the failure of another organisation, or counterparty, with which Council has contracted to meet its obligations.

For Council this may include, but is not limited to:

- financial market transactions (investing /borrowing)
- bank guarantees, which for the purpose of this policy includes insurance bonds,

- undertakings, letters of credit and other similar instruments
- joint venture agreements, contractual alliances or partnerships
 - bills of exchange (including acceptance of cheques), and
 - other (eg sundry debtors).

In this policy, “rating” refers to a long term credit rating or equivalent, provided by Standard and Poors or similar rating agency.

6. Policy Author: Finance Manager

Date of Review: 14 March 2018

Date of Council Resolution: 3 December 2013

Committee Reference and Date: Policy and Administration Board No. 2013(14) of 19 November 2013 - City Management and Finance Committee No. 2013(12) of 26 November 2013

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