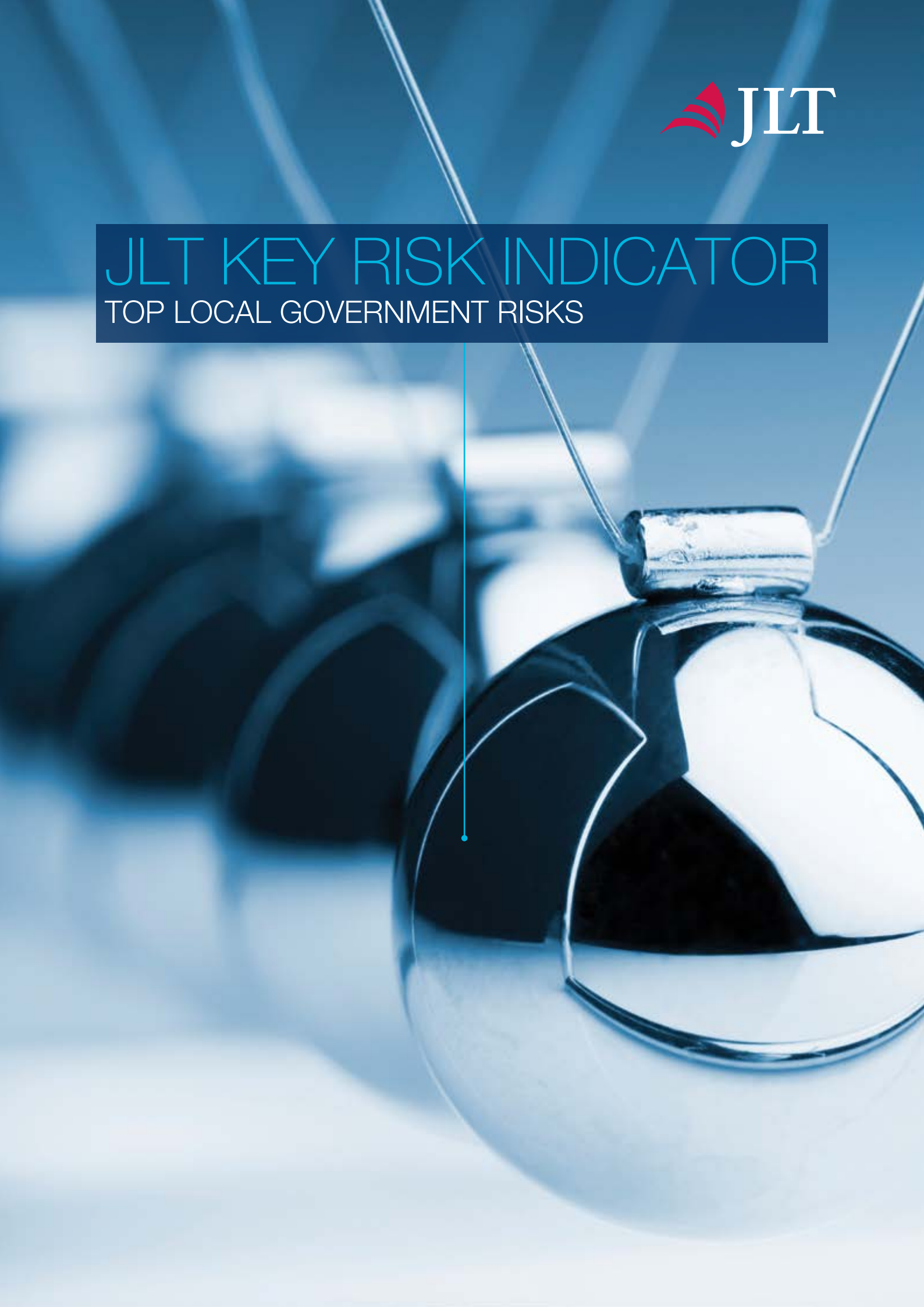




JLT KEY RISK INDICATOR

TOP LOCAL GOVERNMENT RISKS











JLT IS PLEASED TO PRESENT ITS INAUGURAL KEY RISK INDICATOR SURVEY OF LOCAL GOVERNMENT CEOS AND GENERAL MANAGERS IN AUSTRALIA. THIS RESEARCH CAPTURES THE INSIGHTS OF COUNCILS NATIONALLY AND IDENTIFIES KEY RISKS FACING LOCAL GOVERNMENT TODAY.

Local Government across Australia focuses on providing services and infrastructure to support their communities. While meeting community needs has been Local Government's key priority since it was first established, the Council of the 21st Century is presented with many new challenges and opportunities; from responsibilities being passed from other tiers of Government to increasing community expectations as well as the emerging and evolving technologies.

These issues are highlighted as the top three risks by the sector to JLT within its Risk Survey. Local Government confirmed that Financial Sustainability is the leading concern, followed by Crime and Reputational risks. The ever-increasing Statutory and Regulatory requirements that exist for Councils throughout Australia rated fourth. Environmental, damage to infrastructure and natural catastrophes ranked in the middle of the scoring, however the impacts from Cyclone Debbie in Queensland and NSW occurred after the survey was completed so

we will watch with interest to see how these are assessed in the next survey. Interestingly the fast developing risks of cyber attacks and the operational impacts that arise from these events was not profiled as highly as we had anticipated however we will watch closely in the next survey; further, terrorism was not captured in any responses. We regularly receive feedback from Councils that this style of risk is evolving so quickly that is difficult for Councils to know where to start. We anticipate that the priority for Cyber exposures will continue to emerge, particularly as Smart City programmes expand.

Councils are complex organisations who work with multiple stakeholders (governments, community, regulators etc) while at the same time needing to comply with multitudes of different pieces of legislation and hundreds of codes of practice. As Local Government looks to find a way through its ever evolving operation from this evolution, risks will continue to emerge.

<p>1</p>  <p>FINANCIAL SUSTAINABILITY</p> <ul style="list-style-type: none"> • Inadequate Government funding/grants • Inadequate rate revenue to deliver services 	<p>2</p>  <p>THEFT, FRAUD & CRIME</p> <ul style="list-style-type: none"> • Theft of council property or money 	<p>3</p>  <p>REPUTATION RISKS</p> <ul style="list-style-type: none"> • Loss of community trust in Council 	<p>4</p>  <p>INCREASED STATUTORY & REGULATORY REQUIREMENTS</p> <ul style="list-style-type: none"> • Cost shifting from other tiers or Government • Impact on managing Council operations efficiently 	<p>5</p>  <p>ENVIRONMENTAL MANAGEMENT</p> <ul style="list-style-type: none"> • The impacts of climate change on future Council 	<p>6</p>  <p>PROPERTY & INFRASTRUCTURE</p> <ul style="list-style-type: none"> • Natural catastrophe damage to infrastructure • Inadequate capacity to finance asset base
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THE FINDINGS WITHIN JLT'S INAUGURAL KEY RISK INDICATOR REPORT DETAILS THE COMPLEXITY OF LOCAL GOVERNMENT OPERATIONS



FINANCIAL SUSTAINABILITY

44% of Council executives (the largest number of responses) responded that Financial Sustainability is the most significant risk that they face. The major drivers behind this risk are threats to revenue from rate capping and uncertainty surrounding future government funding grants. When coupled with ongoing long term asset and infrastructure costs and shifting of services from other spheres of Government, Councils are being driven to focus on more efficient utilisation of their resources. Interestingly, a significant number of Councils who provided feedback, noted that they believed they had inadequate capacity to finance their existing asset base.

The Local Government Mutual Schemes are supporting Local Government financial outcomes in many different ways. Improved risk management reduces future claim costs, improves claims outcomes which reduce self-managed and other costs. The positive overall performance of the Mutuals also deliver direct financial distributions to all Councils who are members. This can be highlighted by the financial rewards distributed to Councils just topping \$169 million in the past five years.



THEFT, FRAUD & CRIME

Theft, fraud and crime is the second most significant risk highlighted, with 36% of respondents placing it in the top three. Local Government is a regular target for theft of council property, vandalism and in more recent times the emergence of employee theft. The emergence of terror related criminal activity is also highlighted by a significant number of Councils. Interestingly, terrorism wasn't a driver for other risks identified by Councils.

<p>7</p> <p>NATURAL CATASTROPHES / CLIMATE CHANGE</p> <ul style="list-style-type: none"> • Damage to Council assets and infrastructure • Bushfire, flood, cyclones • Community disruption and recovery 	<p>8</p> <p>IT INFRASTRUCTURE / CYBER</p> <ul style="list-style-type: none"> • Emergence of Cyber Attacks • IT infrastructure is unable to keep pace with cyber 	<p>9</p> <p>BUSINESS CONTINUITY & COMMUNITY</p> <ul style="list-style-type: none"> • Unplanned outage of IT or • Telecommunications • Natural catastrophes 	<p>10</p> <p>INEFFECTIVE GOVERNANCE</p> <ul style="list-style-type: none"> • Failure to recognise roles and responsibility 	<p>11</p> <p>EFFECTIVE HR/WHM MANAGEMENT</p> <ul style="list-style-type: none"> • Health, safety and wellbeing of all employees • Limited capacity to attract and retain professional staff 	<p>12</p> <p>ERRORS / OMISSIONS OR CIVIL LIABILITY</p> <ul style="list-style-type: none"> • The potential liabilities issues around damage • Understanding the risk associated with giving advice
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REPUTATION RISKS

Reputation risks is the third highest risk highlighted by Councils, with 32% of participants ranking it in their top three. Councils advised us that the biggest driver creating this risk was the loss of community trust in Council. Damage to the reputation of a Council can be driven by a range of issues and the Mutual Schemes are certainly engaged in a number of issues that have an impact on Council's reputation. Some information that we are observing include:

- Over the past five years, there has been a 44% increase in claims being made against Councillors or Officers for failing to properly undertake their roles. These claims can arrive from potential defamatory comments, failing to comply with Codes of Conduct, investigations by regulators (Ombudsman, Crime & Corruption Commissions) and failures in employment practices.
- An ongoing increase in the complexity, size and publicity of claims are being made from erroneous planning decisions.

Councils have also highlighted two other critical items when they responded to this risk survey:

- Concerns about the loss of Local Government knowledge and staff, resulting in increased failures to undertake legislative requirements as well as;
- A need for Local Government to increase their communities understanding and expectations of local government's roles and responsibilities.



INCREASED STATUTORY & REGULATORY REQUIREMENTS

The next significant risk identified is the increase in statutory and regulatory requirements that Local Government must adhere to as well as the issues surrounding compliance transparency. This results in cost shifting and an inability for Councils to efficiently deliver the services sought by their communities. We received a high level of responses expressing concerns surrounding the impact of changes to planning and other functional requirements, with 19% citing amalgamations as an increasing risk causing further strain on statutory and regulatory requirements for all Councils.



ENVIRONMENTAL MANAGEMENT

The impact of climate change on future Council activities is the driver behind the ranking placement of this risk. Local Governments substantiated this reason with their concerns surrounding the risks of harm to people or the environment arising from waste facilities. A small number of Councils made reference to lack of ability to plan for the future and in one case noted environmental protections is not included in planning considerations and controls.





PROPERTY & INFRASTRUCTURE MANAGEMENT OR DAMAGE

As a significant owner of property and infrastructure, Councils highlighted the risk of damage from natural catastrophic events as a significant exposure and specifically the impacts caused by damages to infrastructure.

Significant damage occurs to infrastructure assets during a catastrophic event. 41% of Councils raised a significant risk of financial loss from disasters as responsibilities have transferred to Council from State and Federal Governments.

Over the past 5 years, Local Government has experienced a number of significant property damage claims arising from fires, storms, hail damage and cyclones. Damage to Council assets has been protected by Local Government Mutuals who have also supported a number of Councils with their claims to access the National Disaster Relief & Recovery Arrangements – Disaster Assist.

NATURAL CATASTROPHES/ CLIMATE CHANGE

Closely aligned to feedback regarding property and infrastructure damage, Councils have highlighted the increasing risks relating to natural catastrophes. Cyclone Debbie is the most recent event that has impacted on Local Government and communities in Queensland and NSW, with overall damage estimates being approximately \$1.4 billion. Local Government asset damage was a significant part of these losses. While Cyclone Debbie was a significant event, Council asset damage from the New South Wales bushfires were most severe in the Greater Blue Mountains Area being \$94m with another \$100m lost in revenue due to the reduced numbers in tourists. A number of Councils also responded in the survey with comments about the increasing risks from the subsequent disruption and recovery of their community following a catastrophic event, and Councils significant role in assisting their communities through recovery efforts.

We also received significant responses highlighting the emerging risks arising from Climate Change. Councils responded with their ongoing need to consider climate risk adaptation within their future strategic plans, specifically in the areas of asset management, planning, community services and employee management. The Local Government Mutuals in South Australia and New South Wales completed significant bodies of work in this area approximately five years ago, resulting in varying operational programmes being developed for individual Councils.



IT INFRASTRUCTURE/CYBER

With cyber security becoming a growing and evolving issue globally, Local Government recognised the emergence of this risk and the future exposures that are being created every day.

On 17 March 2017, the then Assistant Minister for Cities and Digital Transformation, the Honourable Angus Taylor MP announced round one of the Smart Cities and Suburbs with the \$50 million programme supporting Local Governments, private companies, research organisations and not-for-profit bodies, to work collaboratively and deliver innovative smart city projects. The goal of these initiatives is to improve the livability, productivity and sustainability of cities and towns across Australia.

With the utilisation of technologies increasing at a rapid rate and with Local Government being a key stakeholder in developing smart cities of the future, Councils have quite correctly highlighted cyber security as an emerging risk.

The Local Government Mutuals and Schemes around Australia are also developing strategies to support Councils ranging from risk awareness and risk maturity assessments, to delivering a broad level of cyber risk protection.

As part of the risk survey, we also asked Local Government what concerned them most in relation to cyber exposures.

69% of respondents said that the highest concern was data fraud and security breaches followed breakdown of critical infrastructure, with 51% reporting this as a significant concern. Ranking third was cyber attacks with 50% noting this as a concern for their Council.

NOTE: When this research was carried out the Wannacry and Petya Cyber Attacks had not occurred.



BUSINESS CONTINUITY & COMMUNITY DISRUPTION

The risks identified through our risk survey highlights the diverse exposures that can lead to business continuity and community disruption. Threats to business continuity can arise from unplanned outages of IT or telecommunications services, fire or flood damage to Council.

Comments from Councils around community disruption mainly relate to natural disasters and weather related events that cause major disruptions and the long time frames for communities to recover. Councils have significant roles to play when these events arise and this can cause additional costs along with major redirection of Council resources.



INEFFECTIVE GOVERNANCE

Ineffective governance creates a number of different risks for Councils including the potential for reputation damage with communities and other spheres of Government. Governance systems have been highlighted by Councils as the key platform for their organisation, from the Elected Council to the roll out of services to communities.

Councils highlighted that a key risk of ineffective governance is a failure to support the different rolls and responsibilities within the organisation and therefore create a fractured delivery of services to local communities. As a cornerstone to most Council activities, ineffective governance can create claims against Councillors, failure in managing contractors, facilities and events, poor risk management standards and lack of achieving Council's strategic goals. 19% of Council respondents also identified that poor governance frameworks made it very difficult to detect and manage misconduct appropriately.



EFFECTIVE HUMAN RESOURCE/WHs MANAGEMENT

Local Government recognises the importance of its people and is committed to the providing a safe and suitable working environment for its staff. In addition to safety management systems, many are adopting health and wellbeing programmes that further support their employees.

This commitment is reflected in the survey with 56% of respondents identifying the health, safety and the wellbeing of their employees as a focus area for Council. This also aligns with the knowledge of many Councils facing an ageing workforce and looking to attract and retain professional staff to continue serving their communities.



ERRORS/OMISSIONS OR CIVIL LIABILITY

The final risk raised by Local Government is errors, omissions or civil liability exposures of Councils. With close links to failures from ineffective governance, Councils highlighted that they are complex organisations that are continually balancing community, political and legislative priorities. Key risks highlighted by the respondents are the potential liability issues related to damage or injury to others (51%), followed closely by concerns surrounding understanding the risk associated with providing advice to constituents – particularly around Planning (47%). Negligence arising from failure to comply with legislation was another key risk that was highlighted.

This feedback from the sector aligned closely with the claims experience of the various Local Government Mutual Schemes around Australia, where 95% of civil liability claims cause bodily injury or property damage and 5% arise from an error or omission when providing advice. It is identified that Schemes and Mutuals have significant resources and expertise to assist Councils in this very complex area.



REPRESENTATION

Councils across Australia representing metropolitan, regional and rural areas identified a number of concerns surrounding risk.

CONTACTS

LEO DEMER

Global Head of Public Sector
T: : +61 (0)2 9320 2702
Leo.Demer@jlta.com.au

GARY OKELY

CEO – Public Sector
T: +61 8 8235 6410
Gary.Okely@jlta.com.au

CRAIG HINCHLIFFE

General Manager – Public Sector QLD
T: +61 7 3000 5506
Craig.Hinchliffe@jlta.com.au

KEELY AUTREY

Executive Manager – Public Sector NSW
T: +61 2 9320 2734
Keely.Autrey@jlta.com.au

BRONSON JUSTUS

General Manager – Public Sector VIC & TAS
T: +61 3 8664 9314
Bronson.Justus@jlta.com.au

TONY GRAY

General Manager – Public Sector SA
T: +61 8 8235 6408
Tony.Gray@jlta.com.au

JONATHAN SETH

General Manager – Public Sector WA
T: +61 8 9483 8855
Jonathan.Seth@jlta.com.au

JAMES SHERIDAN

Branch Manager – NT
T: +61 8925 5300
James.Sheridan@jlta.com.au

Jardine Lloyd Thompson Pty Ltd ABN 69 009
098 864 AFS Licence 226827

Level 37, Grosvenor Place
225 George Street, Sydney NSW 2000
Tel: +61 2 9290 8000 www.au.jlt.com

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