



JLT PUBLIC SECTOR RISK REPORT 2019

2019 KEY RISK RANKINGS IN ORDER

	1. Financial Sustainability		8. Business continuity and community disruption
	2. Cyber incidents/IT infrastructure		9. Effective HR and/or WHS management
	3. Reputation Risk		10. Environmental management
	4. Natural catastrophes/Climate change		11. Errors, omissions or civil liability exposure
	5. Property & infrastructure management		12. Theft, fraud and/or crime
	6. Increased statutory and/or regulatory requirements		13. Terrorism
	7. Ineffective governance		

2019		2018
1	Financial sustainability	Financial sustainability
2	↑ Cyber incidents/IT infrastructure	Theft, fraud and crime
3	Reputation risk	Reputation risk
4	↑ Natural catastrophe/Climate change	Increased statutory and/or regulatory requirements
5	↑ Property and Infrastructure management	Environmental Management
6	↓ Increased statutory and/or regulatory requirements	Property and Infrastructure management
7	↑ Ineffective governance	Natural catastrophe/Climate change
8	↑ Business continuity and community disruption	Cyber incidents/IT infrastructure
9	↑ Effective HR and/or WHS management	Business continuity and community disruption
10	↓ Environmental Management	Ineffective governance
11	↓ Errors, omissions or civil liability	Effective HR and/or WHS management
12	↓ Theft, fraud and crime	Errors, omissions or civil liability
13	Terrorism	Terrorism

A NOTE FROM GARY OKELY

In our second edition of the JLT Risk Report, we take an in depth look at the risk information provided by CEO's and General Managers and share the key risks faced by Councils with the entire Local Government community. With the complexity and variety of risks changing at a rapid rate, Local Government finds itself in a central role for many of these due to their multi-faceted business and community focused operation. Management of these risks creates both opportunities and challenges for Local Government as they look to lead economic stability, climate change, cyber security and community safety.

The JLT Risk Report showcases the sensitivity and risk challenges that are faced by councils.

This report reflects the information that General Managers and CEO's of Local Government see as their key risks. Underpinning these results is the analysis of this data benchmarked against our claims data. This provides the broadest and most significant risk report of Local Government information across Australia and is able to provide industry insights and alignment of real scenarios that impact Councils. We can confidently say this because responses to the survey came from Metropolitan, Regional City, Regional and Rural/ Remote councils and from every Australian State and Territory.

Thank you to all General Managers and CEOs who participated in the survey. I am sure you find the JLT Risk Report informative and will valuable.



GARY OKELY
Head of JLT Public Sector, Pacific

A stylized, handwritten signature in white ink, appearing to read 'Gary Okely'.

OVERVIEW

The JLT Risk Report analyses the feedback from Local Government CEOs and General Managers on the key risks they view as a potential impact on councils. These risks are benchmarked against our 2018 Risk Report as well as claims and risk data from over 500 councils nationally.

This year's findings once again highlight the complexity of Local Government operations.

This report examines the claims and risk environment within Local Government and highlight the top risks identified by Local Government CEOs and General Managers.

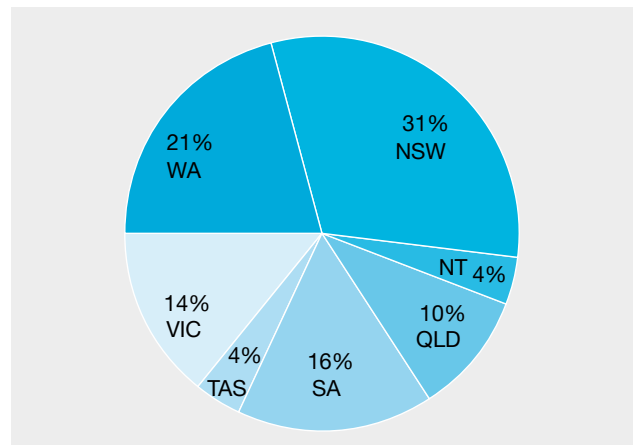
Risk Rankings

1. Financial sustainability
2. Cyber incidents/IT infrastructure
3. Reputation risk
4. Natural catastrophe/Climate change
5. Property and Infrastructure management
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8. Business continuity and community disruption
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13. Terrorism

The report highlights the continued importance of financial sustainability with its ranking as the leading risk for the second year. The greater awareness and activity in Cyber incidents brought this risk down to the number 2 position followed by Reputational Risks which maintained the number 3 position from 2018.

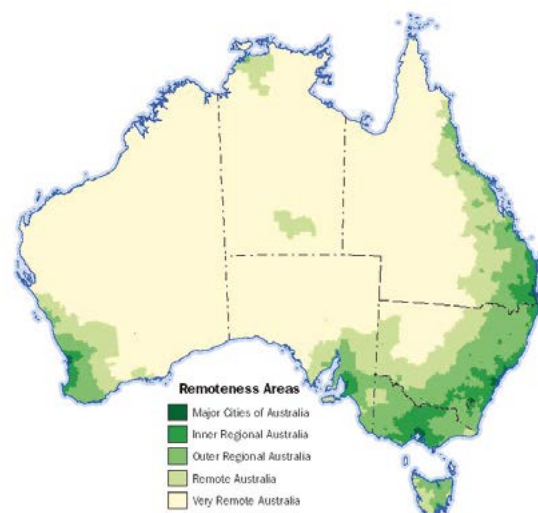
Survey Respondents

The responses received across Australia to the Risk Survey were well balanced with a cross section of Metropolitan, Regional City, Regional and Remote/Rural Councils spread across the states.



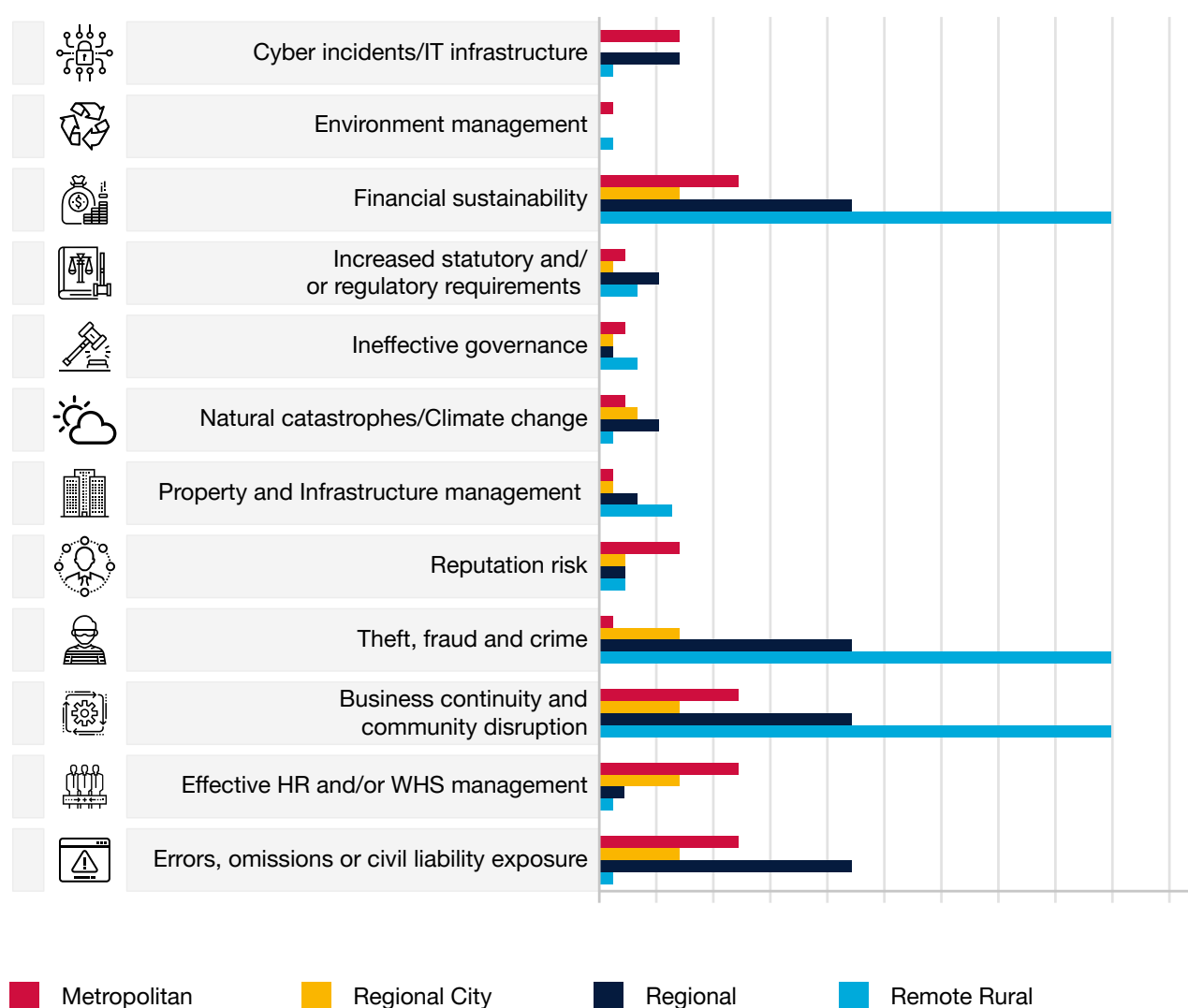
Metro/Regional City / Regional/Rural & Remote	Response Percent
Rural/remote	40.0%
Regional Council	29.0%
Metropolitan Council	21.0%
Regional City	10.0%

It is important to recognise the representation of responses. Remoteness is based on the level of access to services and the following map by the ABS shows these levels from rural/remote to metropolitan. The significant response from rural/remote council indicates the impact of risks as the sustainability of these councils.



The following chart showcases the vast thoughts across metropolitan, regional city, regional and rural and remote councils on the risks.

Sample: Metro/Regional City/Regional/Remote Rural



As new risks evolve or existing risks become more complex, the mitigation of these are paramount in reducing the impact on Local Government and the community.

Tailored programmes and risk protection methods enables Councils to feel assured they are protected against loss and disruption, reducing the impact on services to their communities.

2019 OUTCOMES



RISK 1. FINANCIAL SUSTAINABILITY

The leading risk Councils are facing continues to be Financial Sustainability. The major driver continues to be limitation of revenue growth, operations, rate capping along with cost shifting from State and Federal Government to Local Government. As the shift of asset and infrastructure costs continue, Councils are required to be more resourceful so that they manage their existing operations along with new activities.

With an 8% increase on the 2018 survey in selecting this as the leading risk, this demonstrates the increasing concerns Councils have in this space.

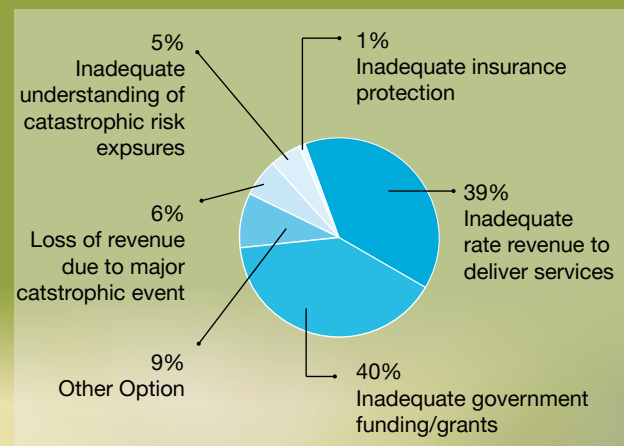
Of the respondents who rated financial stability as their primary concern as a risk, 52% were from rural councils, followed by 26% being regional councils. Regional city and metropolitan councils made up the remaining 22% concerns.

Local Government employs over 190,000 people and owns and manages \$410B in assets. With controls from Federal and State Budgets affecting their funding and management of rates, it is no surprise that Financial Sustainability maintains its number one ranking.

The above figures link with the leading concerns regarding financial sustainability that inadequate rate revenue to deliver services and inadequate government funding grants leads to pressures for councils.

JLT has compared the cost of risk against Council revenues and asset values for many years. In recognising the financial pressure on Councils, our objective is to provide long term price stability beyond the traditional

cyclical nature of insurance markets. Recent weather events in northern Australia and planning related matters have created challenges in some areas however Local Government's investment in risk activity has had very positive impacts on the outcomes that are achieved.





RISK 2. CYBER INCIDENTS/IT INFRASTRUCTURE

As a continually growing and evolving issue globally, this demonstrates Local Government's recognition of this risk and the potential for current and future exposures.

As more and more councils become smart cities, improving the liveability, productivity and sustainability of their communities, they are, or are going to embrace the Internet of Things (IoT) to deliver services.

Digital technology coupled with data is beneficial in delivering efficient services, however the technological infrastructure needs to be maintained to manage the fast pace changes of the digital world and ensure it is protected so the community is not impacted.

Moving from 8th position in 2018, respondents said that the second highest concern facing Local Government was Cyber Incidents and IT Fraud. Regional and metropolitan Councils primarily voiced this concern at 93%.

The leading concern in the Cyber space was the emergence of cyber-attacks with 22% of respondents identifying this as their biggest cyber risk. This was closely followed by Council IT infrastructure being unable to keep pace with cyber changes with the third cyber concern being Data fraud and security risks.

To highlight the continual evolution of cyber risks, the insurance market is adapting to identify non-affirmative or silent cyber risks and how protection is now being provided. Lloyds of London have already detailed that all property damage policies will have to specify if Cyber coverage is included or specifically excluded in the policy wording.

In 2018, there was an increase of 350% in ransomware attacks, 250% in email compromise attacks and 70% of phishing attacks. This aligns with the increase in the ranking of cyber to being the second highest risk Councils see they face.

As digital technologies evolve and become a significant driver of business, this report indicates Local Government will see this as a leading concern now and into the future.

As Councils rely increasingly on internet connectivity to carry out business operations, they are more vulnerable to cyber risks.

Network intrusion, hacking, phishing, cyber extortion and social engineering are just some of the ways that today's organisations can have their information assets compromised. As the frequency of cyber-attack incidents increases and are publicised, so is the appetite for Councils to invest in the mitigation of their cyber risks.

In South Australia, LGRS introduced the Cyber Vulnerability and Risk Profiling service as a "Whole-Of-Business" approach to help Councils to manage their cyber risks. In order for Members to understand their cyber risk profile, it was crucial for participating Councils to be aware of the value and information assets and the repercussions should there be a cyber breach. To date, the common issues identified for Local Government include:

1. Business Continuity and Disaster Recovery not tested/ lacking documented processes
2. Mobile Device Management (MDM) with the potential for lost or stolen device being used to access Council email system.
3. Multi-factor authentication for external services to protect services such as email accounts and other logins to external systems.
4. Lack of utilising auditing and logging functions to capture events to raise visibility of possible malicious activity





RISK 3. REPUTATION RISK

Reputational risks maintained the third highest risk ranking that Council's and the CEO/General Managers face. The loss of community trust in Council was the biggest concern with 74% of Councils raising this, followed by losing trust in Council staff and then loss of trust in Councils with failure to undertake legislative requirements their third concern. 10% of respondents were concerned about investigations by ICAC and other governing bodies.

In the past 12 months, claims data for Councillors & Officers insurance has had an upward trend of 11.24% across Australia, with a 26% increase in claims in the past two years. In addition to the claim numbers reported, costs of defending these matters have increased dramatically due to the sensitive and emotive nature of these claims. The most common causes reported arise

from elected member conflicts, increased regulatory activity and employment disputes. Claim reports also increase following election cycles.

Council CEO's are very aware that the Council's reputation is paramount in maintaining community trust and the emergence of Audit Committee's requiring consideration of "risk" issues is a positive move.



RISK 4. NATURAL CATASTROPHES/CLIMATE CHANGE

Moving up the ranks is the risk and impact of natural catastrophes and climate change. With 32% of respondents noting their major concern surrounding damage to Council assets and infrastructure, followed closed by 29% stating bushfire, flood and cyclones as a contributor to this risk rating.

Disaster Assist has stated that in 2018 there were 55 Australian disasters incorporating 29 Bushfires, 6 cyclones along with 19 floods and/or storms and 1 monsoon. This is an increase of 12 events on 2017. With a 28% increase in one year and a 34% increase in five years of natural disasters in Australia, this underpins the reason Local Government have this concern.

In 2017, IAG estimated the cost of natural disasters to reach \$39 Billion by 2050. This continual increase in catastrophes and climate change being a contributor to this, respondents have again highlighted the seriousness of these events on councils. CEOs and General Managers noted in responses real concern regarding the uncertainty and severity of events. As events increase, 17% of respondents further noted that the impact and disruption of the community was a concern.

The financial impacts from significant events is very expansive and while insurance of assets can provide significant protection, in reality, a number of community assets remain uninsured, The Federal Government continues to review funding mechanisms for Natural Disasters and there have been changes to the National Disaster Fund Programme (NDFP) during the last 12 months that will impact Local Government. From a risk management perspective Local Government and the insurance industry have been lobbying the Federal Government to invest more funds in risk mitigation and the recent Federal Budget showed some promising signs with the Morrison Government announcing \$3.9 Billion to fund disasters, including funding for risk mitigation.





RISK 5. PROPERTY AND INFRASTRUCTURE MANAGEMENT

Local Government has substantial ownership of property and infrastructure. Moving up from the ranking of #6 in 2018, 35% of Councils' responses to this question noted once again, natural catastrophe damage to infrastructure and equally inadequate capacity to finance their asset base as the leading concerns regarding this risk.

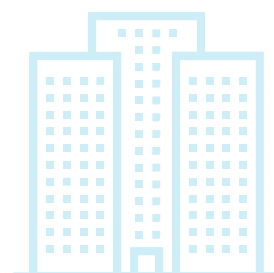
These concerns were followed by 26% of Council having the concern of State and Federal Government transferring the responsibility of assets to Local Government. In a catastrophic event, damage impacts infrastructure assets and the financial loss from disasters can be significant.

Since 2014, the top 10 catastrophes in Australia have been at a cost of \$8,430,203,933.

Year	Catastrophe	Normalised Loss
2019	Townsville Floods	Over \$1,000,000,000*
2019	NSW Hail Storm	Over \$670,000,000*
2018	Cyclone Trevor	Not yet disclosed
2017	Cyclone Debbie	\$1,781,599,484
2014	Brisbane Hailstorm	\$1,535,440,024
2015	East Coast Low	\$1,059,849,563
2018	NSW Metro & Regions Hailstorm	\$1,038,704,566
2016	November Hailstorm	\$621,470,779
2015	Severe Tropical Cyclone Marcia	\$573,653,503
2017	Sydney Storm	\$529,694,379
2015	Anzac Day Sydney Hailstorm	\$470,819,649
2016	East Coast Low	\$431,566,695
2015	SEQ Extreme Weather	\$387,405,291

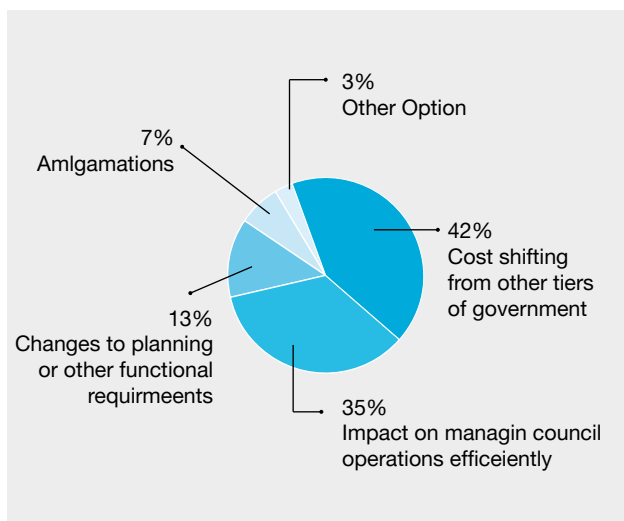
*Accurate data has not yet been released, these are estimated figures.

The number of property damage claims by councils arising from cyclones, storms, floods and bushfires since 2014 equate to 19.64%.





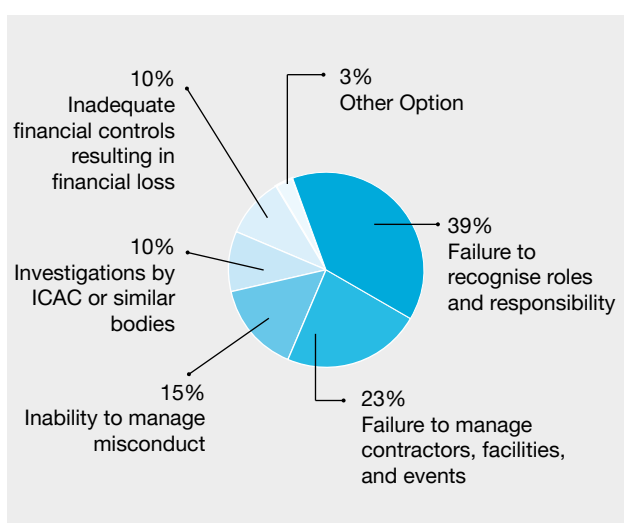
RISK 6. INCREASED STATUTORY AND REGULATORY REQUIREMENTS



The increasing focus of compliance and transparency, cost shifting from other tiers of Government and the impact on Councils continued in the 2019 response rate. This links with 35% of responses stating their concern that increased statutory and regulatory requirements reduce capacity to deliver effectively and efficiently to their communities.



RISK 7. INEFFECTIVE GOVERNANCE



Risks arise from ineffective governance which often leads to reputational damage with Council's communities and other stakeholders. This risk has moved up from 10th place in 2018.

Again the key concern highlighted by councils was the failure to recognise roles and responsibilities within the organisation at 38% followed by 23% identifying a failure to manage contractors, facilities and events as a concern. 15% noted an inability to manage misconduct as a series issue and 20% of respondents shared concerns with investigations by ICAC or similar bodies or inadequate financial controls resulting in financial loss.

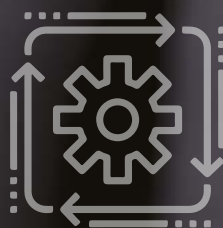




RISK 8. BUSINESS CONTINUITY AND COMMUNITY DISRUPTION

Moving up one spot, responses to this question again showcased the diverse exposures that can lead to the need for business continuity management plans in order to minimise community disruption. Natural catastrophes such as bushfire, flood and storm were the highest concerns with 33% of CEOs and General Managers seeing this as a contributor. This links strongly with the concerns of risk 4 linking with natural disasters and climate change.

Having unplanned outage of IT or telecommunications was followed closely by 31% of respondents stating this as a serious issue, yet only 18% noted cyber threats as a contributing concern to business continuity and community disruption – even though Cyber Incidents and IT infrastructure ranked as the second highest risk overall in the Risk Survey.





RISK 9. EFFECTIVE HR AND/OR WHS MANAGEMENT

Effective HR and/or WHS Management saw 39% of respondents noting health, safety and wellbeing of all employees was the high concern within this risk. This was followed closely with 31% concerned with Councils' limited capacity to attract and retain professional staff.

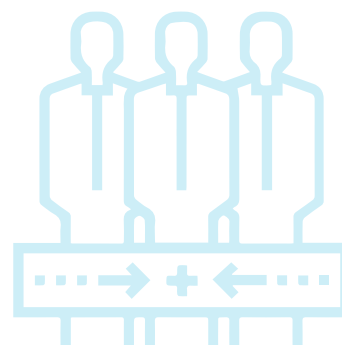
Maintaining the health, wellbeing and safety of employees within Local Government is a continuing challenge. This is none more so prevalent now with an ever increasing ageing workforce, which brings about additional challenges and risks to the workplace. Indeed, Australians are intending to work longer than ever before. ABS research released in 2016 revealed that 23% of Australians aged 45 and over intend to work to age 70, compared to only 8% in 2004-2005. Research suggests that many workplaces are failing to actively address their increasingly ageing workforce, with only one in three organisations taking measures to do so. This is despite ample evidence to support the financial proposition that investing in supporting an ageing workforce is a good idea. For example, based on some of our Mutual Scheme's workers compensation data over a 20 year period we have seen an average cost of a claim for a 55-64 year old incur in excess of 240% higher costs when compared to a 25-34 year old. Unfortunately, the sad reality is that as we age our body's capacity to recover, rehabilitate and return to work following injury or illness declines.

That being said, older employees can safely and productively remain at work, if policy and practices supportive of employee needs are in place. In South Australia, where the median age is the second highest in the country, we have run a 2 year pilot project charged with identifying and implementing such supportive policies and practices within Local Government. The pilot considered a whole of employment approach, with particular focus and attention on health, wellbeing, financial security, flexible age and retirement options. Deliverables such as a mentoring program, stretching program, financial health and wellbeing education headlined the pilot with Council employees participating reporting higher levels of engagement, self-reporting of future employment needs and improved overall physical, wellbeing and cognitive function. Whilst addressing the needs of an ageing workforce is not a simple fix and is multifactorial, it is important that Local Government considers this continuing long term risk and implements strategies aimed at mitigating potential future losses.

Related to the Ageing Workforce our survey identified that employee remuneration, training and development as a risk with 23% reporting this as a concern. Training and development is a critical investment area and in terms of managing an ageing workforce it is important to consider how a Council may transition an employee completing heavy, manual tasks into employment that can be sustained into the latter years of their working life. Fitness for work is a common risk for Local Government and where addressed in a proactive, positive manner it can contribute towards building workforce capability, productivity and safety. More often, we see fitness for work becoming an industrial avenue or a workers compensation matter, however with forward planning, identification of employment pathways and open and transparent communication with the entire workforce does not mean it has to be an adversarial process.

These results and concerns solidify Local Government commitment to providing a safe working environment and having health and wellbeing programmes to support employees.

With 23% noting employee remuneration, training and development as their third concerns within this risk, links with our knowledge of Councils looking for solutions for an ageing workforce, providing suitable employment roles but also attracting and retaining young professionals.







RISK 10. ENVIRONMENTAL MANAGEMENT

Moving five ranks down from 5th position is Environmental Management. South Australia and Western Australia were the primary states that recognised this risk, being represented by metropolitan and rural councils.

However, in breaking down the concerns within this risk, 69% of respondents recognised the impacts of climate change on future Council activities being the key contributed. This was followed by 25% noting risks of harm to people or the environment arising from waste facilities.



OTHER IDENTIFIED RISKS

ERRORS, OMISSIONS OR CIVIL LIABILITY EXPOSURE

Potential errors from Councils failing to adequately undertake regulatory roles create liability issues that result in financial loss, property damage or injury to others. Every year hundreds of professional indemnity claims are made against Local Government and these arise from simple planning matters to complex and large property developments. While the frequency of events are lower than general liability incidents, the complexity and severity of professional indemnity losses are quite significant.



THEFT, FRAUD AND CRIME

A dramatic change from the 2018 survey was the placement of theft and fraud moving from second position to 8th. This demonstrates there is a shift in Local Governments view of theft from physical asset loss to electronic.



TERRORISM

Terrorism was rated as a very minor risk to Local Government across Australia. While the risk of terrorism events are extremely rare in Australia, the consequences can obviously be extreme. The recent lone wolf attack in New Zealand demonstrates the challenges of identifying the potential of such events; and when such an event occurs, the effect on the local and global community is devastating and polarising. Having such events on Council's risk radar is important and developing and putting in place disaster response plans that can address terror related events is essential.



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