

2021

# JLT Public Sector Risk Report

JLT Public Sector is your trusted expert in the design and delivery of risk solutions for governments and their communities.

Our solutions are built on knowledge and expertise across advice, protection, claims, risk and insurance service areas and our clients are our number one priority.

Our experience in the sector and in product innovation create risk solutions for stronger local, state and federal governments and more resilient communities for the future.

### Acknowledgement of Country

In the spirit of reconciliation, JLT Public Sector acknowledges the Traditional Custodians of country throughout Australia and their connections to land, sea and community. We pay our respect to their Elders past and present and extend that respect to all Aboriginal and Torres Strait Islander peoples today.

## NOTE FROM GARY OKELY

The past two years have presented many different challenges to every community – locally, nationally and globally. These challenges have presented governments at every level with the difficult task of having to find more complex and demanding solutions to ensure that they continue to support their communities.

In developing these solutions, councils have shown a great understanding of their risk profile and also the need to continue finding new risk mitigation programs to deliver increased resilience and prosperity for their communities. Australia faced a significant period of disasters through 2019-20 when Queensland, New South Wales, Victoria, Tasmania and South Australia were hit hard through a catastrophic bushfire season. Just as recovery was in sight, the world has had to face a 1 in 100 year pandemic event which our communities are still moving through. These impacts are seen in the responses provided within this fourth edition of the JLT Public Sector Risk Report.

This report has utilised 237 individual responses from senior local government executives throughout Australia to showcase the most significant risks they currently face. The report draws on your insights and provides our commentary with observations related to these risks.

Our thanks go to LG Professionals Australia for partnering with JLT Public Sector to support the collection of data for this report. We are very grateful to all the CEOs and General Managers who participated in this year's survey, your contributions make the 2021 Risk Report a valuable resource.



Gary Okely  
Head of Public Sector, Pacific

A handwritten signature in black ink, appearing to read 'Gary Okely', written in a cursive style.

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## TOP RISKS IDENTIFIED BY LOCAL GOVERNMENT

Financial Sustainability



Cyber Security



Assets and Infrastructure



Disaster/ Catastrophic Events



Reputation



Business Continuity Plan



Climate Change/Adaption



Impact of Pandemic



Regulatory/ Statutory Requirements



Ineffective Governance



# EXECUTIVE SUMMARY

2020 and 2021 were unprecedented years for catastrophic events nationally and globally and in one way or another, the impacts were felt by every council across the nation. Pandemics, bushfires, storms, floods, cyclones and cyber-attacks continued to impact Australia with many councils being affected by multiple events.

JLT’s commitment to support all councils as your needs evolve is unwavering and we are continuing to find ways to innovate so that our services and solutions meet your evolving needs.

This year’s report shows interconnection between the risks. Participants in the 2021 Risk Survey demonstrated through their responses the impact of multiple risks occurring concurrently, such as disasters and catastrophes impacting financial sustainability, infrastructure and assets.

Councils have undoubtedly faced uncertainty during the pandemic with revenue challenges, community support packages, and considerations on how to continue delivering services during long-term lockdowns which presented significant challenges. However, councils were also able to play a key role in supporting economic stimulus with increased infrastructure funding being available from both federal and state governments.

While the resilience of councils was tested due to the pandemic and recent events, the introduction of more mobile and remote workforces and the significant emergence of cyber-attacks across 2021 has further enhanced issues for councils to consider. The **Australian Cyber Security Centre’s Annual Cyber Threat Report\*** shows the second highest number of cyber security incidents reported in 2020/21 were across state, territory and local governments. Cyber security has emerged to become a significant strategic risk for all councils and can no longer be left in the domain of the IT department. Council CEOs and GMs have recognised this and identified Cyber as the second highest risk in the latest risk rankings.

Though Australia has a long history of natural hazard events impacting on our communities, the 2020/21 bushfires were of an unprecedented scale and when combined with other major disaster events, impacted nationally at a far greater level than has been experienced in modern history. The **Intergovernmental Panel on Climate Change’s report** on Global Warming in August 2021 identified the potential of the increase in climate variations over the next 20 years and significant impact this will have on the environment.

The 2021 Risk Report demonstrates that the events over the past two years have drawn councils to identify and acknowledge interconnected risks of importance. An example of this is within the cyber security ranking. Similarly, climate change and/or adaption has also moved up the rankings as you have identified the interconnectivity of disasters and catastrophic events and their impact on the management of damaged and ageing property, assets and infrastructure. Looking for governments to consider “betterment” when rebuilding infrastructure impacted by a disaster has become a key discussion item.

Councils have also acknowledged that managing their role during significant events introduces a significant reputational risk to them so the importance of business continuity planning at both an organisational and community level is becoming increasingly important.

The information provided by council CEOs and General Managers that enables us to prepare this report for Local Government has become an important tool to guide discussions within the sector and when added to our data insights, enables us to evolve the support and response that we can provide to you.

## THE MOVEMENT OF RISK 2018-2021

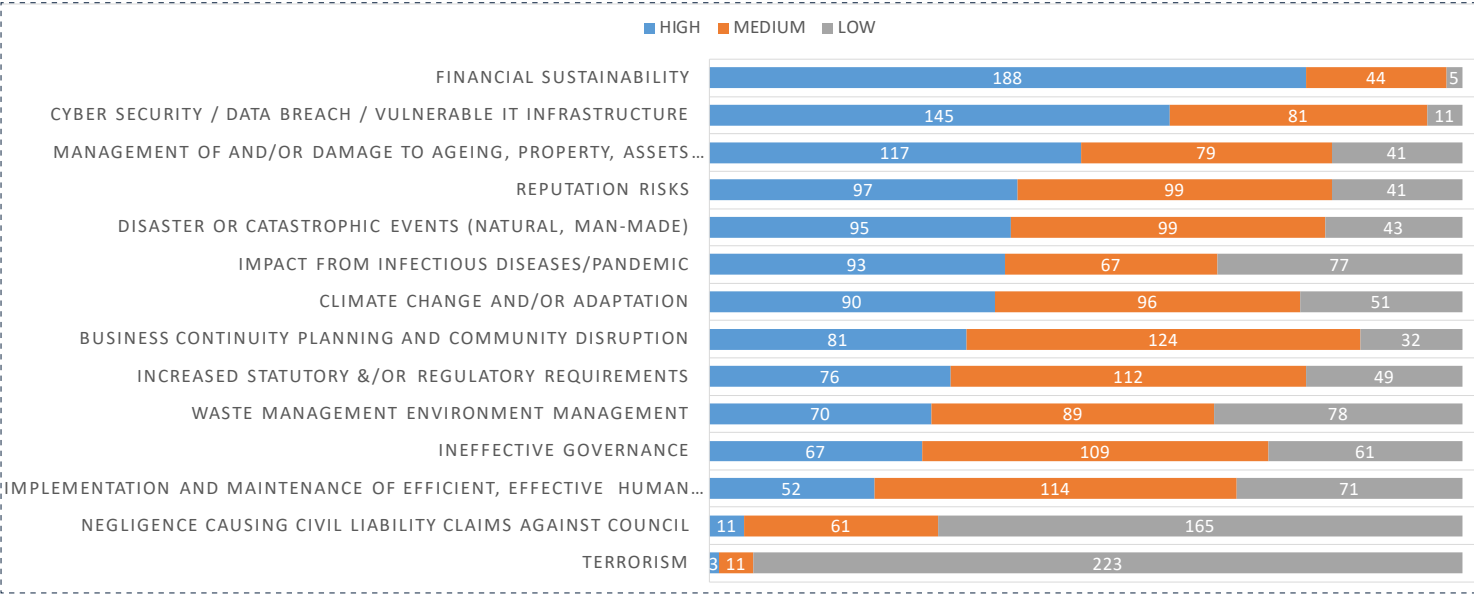
	2018	2019	2020	2021
1	Financial Sustainability	Financial Sustainability	Financial Sustainability	Financial Sustainability
2	Theft, fraud and/or crime	Cyber Security	Assets & Infrastructure	Cyber Security
3	Reputation	Reputation	Disaster or Catastrophic Events	Assets & Infrastructure
4	Statutory & Regulatory Requirements	Natural Catastrophes	Cyber Security	Disaster or Catastrophic Events
5	Environmental Management	Climate Change / Adaptation	Reputation	Reputation
6	Assets & Infrastructure	Assets & Infrastructure	Business Continuity	Business Continuity
7	Natural Catastrophes	Statutory & Regulatory Requirements	Waste Management	Climate Change / Adaptation
8	Cyber Security	Ineffective governance	Statutory & Regulatory Requirements	Impact of Pandemic
9	Business Continuity	Business Continuity	Climate Change / Adaptation	Statutory & Regulatory Requirements
10	Ineffective Governance	HR/WHS Management	HR/WHS Management	Ineffective governance
11	HR/WHS Management	Environmental Management	Ineffective Governance	Waste Management
12	Errors, omissions or civil liability exposure	Errors, omissions or civil liability exposure	Theft, fraud and crime threats (including social media)	HR/WHS Management
13		Theft, fraud and/or crime	Errors, omissions or civil liability exposure	Civil Liability Claims
14		Terrorism	Terrorism	Terrorism

# 2021 OVERVIEW

The 2021 JLT Public Sector Risk Report incorporates the feedback of CEOs and General Managers from 237 councils nationally. Responses measured the key risks they viewed as potential impacts on councils and were reviewed by subject matter experts against current events and insights.

The 2021 JLT Public Sector Risk Report details the key local government risks and prioritises them based upon specialised local government experience and knowledge. This report has captured strategic input from executives right across the local government sector during 2021 as well as gives some insights into what has changed compared to the historic information provided by councils in earlier editions. The report aims to build awareness of risks that support councils’ long-term planning and consideration of future events. We hope that this report will challenge some thoughts as well as provide industry insights and comments from our subject matter experts.

The ranking of risk on the 14 risks



The significant events that occurred across 2019, 2020 and 2021 have been influential and reflect the information received from council CEOs and GMs regarding the risks they face. This melting pot of events has brought into focus the interconnection of risks that impact on council financial stability, business interruption and the impact of both ageing and other infrastructure. The addition of fast emerging threats and risks from cyber actors is also impacting on the delivery of services to the community.

This report showcases a number of areas where a domino effect can occur after a significant event happens and connects a number of associated risks.

“The significance of the pandemic, bushfires, storms and floods over the past two years demonstrate how the interconnectivity of events can impact on the financial sustainability pressures being faced by local government.

Gary Okely



# 1. FINANCIAL SUSTAINABILITY

Financial sustainability has again been confirmed as the number one risk to the Local Government sector in 2021. A key contributing factor is councils' limited ability to increase revenue to deliver operational requirements in line with community expectations. Influencing factors are council rate revenue growing at an insufficient rate to cover increased operational costs, particularly in well-established local government areas where there is limited new housing development. This has been further exacerbated since the onset of the COVID-19 pandemic where there has been a community and broader business expectation of council rate relief. Inadequate funding from both state and federal governments has also been cited as a key risk, with specific concern around the ongoing maintenance of roads, footpaths and critical infrastructure.

Local government revenue is primarily raised through rates and services, with other funding being provided through other avenues such as grants. It is evident across much of the country that responsibility for maintenance of critical infrastructure and key assets has shifted over time from state governments to councils, with there being insufficient access to the funding necessary to maintain and replenish critical assets and infrastructure in line with community expectations. As an example, many local government areas have jetties and wharves which are considered a critical asset for both commercial and tourism purposes. The infrastructure is extremely expensive to maintain and repair when damaged.

It is critical that councils develop and maintain dynamic asset management plans that provide both a short and longer-term perspective on the critical asset and infrastructure maintenance and replenishment requirements to enable a strategic approach to investment and the accessing of the grant funding available through the various state and federal channels. It is also important that cyclical asset valuations are maintained to ensure that critical assets are valued accurately and that consideration is given to whether market or replacement value is the appropriate approach for example, if a very old council-owned building were destroyed, would you restore the building to its original state or would you choose to replace it with a more modern building?

The Queensland Government Audit of Councils in 2019/20 noted: "More than half of the councils continue to spend more delivering services to their community than they receive in revenue from rates, fees and charges, and grants."\* In Victoria and New South Wales, councils have to work with rate capping, restricting the amount of revenue they can achieve to deliver services each year.

"Dealing concurrently in recent years with a pandemic and other major disasters like bushfires and floods, has placed increased financial pressure on many councils creating a challenge in balancing community expectations and attainable finances," said Tony Gray, General Manager of JLT Public Sector in South Australia. Councils with diversified operations who obtain significant revenues from tourism, parking and the likes have suffered while also managing increased costs from hard lockdowns and other restrictions arising from the pandemic.

The pandemic impacted councils beyond the element of illness and lockdown. Regional areas of Australia benefited from a sea/tree change from city dwellers and, though a welcomed influx, this has heightened the need for services and infrastructure to be in place to support a growing population.

## THE SURVEY TOLD US

# 54%

of respondents state insufficient rate revenue to deliver services is a key driver of this risk.

# 19%

state there are inadequate government funding programs and grants for local government

More than half of the councils continue to spend more delivering services to their community than they receive in revenue from rates, fees and charges, and grants\*

\*Local government entities: 2018–19 results of financial audits Report 13: 2019–20

# 2. CYBER SECURITY

The reliance on technology continues to rapidly expand among every part of council operations and this has escalated even faster during the COVID-19 pandemic. The Internet of Things, cloud-based computing systems, applications and devices now punctuate nearly every aspect of council business which leads to increased risks of frequent and severe cyber attacks.

Temple University in Philadelphia recently noted in its *Cybersecurity in Application, Research & Education Laboratory* that ransomware attacks in the US were increasing, specifically on critical infrastructure. Where organisations have not been prepared, cyber criminals have been able to affect organisations through ceasing business operations for periods of time<sup>1</sup>

With an increase in disasters and catastrophes, along with the pandemic, cyber attacks are on the rise and infiltrating organisations of all sizes, including governments, leveraging the circumstances.

While awareness of cyber risks has definitely increased, many councils continue to identify gaps within their cyber security and risk mitigation programs which can leave them vulnerable if and when an attack occurs. These concerns mirror those of CEOs and GMs within Australian local government who rated their IT infrastructure or provider being unable to adequately and proactively manage their cyber security response in the event of a potential cyber attack. Further, participants noted they were not confident in the reliability and integrity of their IT infrastructure.

On 6 August 2020, the Australian Government released Australia's Cyber Security Strategy<sup>2</sup> which commits an investment of \$1.67 billion over 10 years to achieve a vision. This includes:

- Protecting and actively defending the critical infrastructure that Australians rely on, including cyber security obligations for owners and operators;
- New ways to investigate and shut down cyber-crime;
- Stronger defences for government networks and data.

This strategy will involve an increased focus for all councils to support their operations and their communities.

Figure 1 from the 2021 Australian Cyber Security Centre's Annual Cyber Threat Report\*\* shows **the second highest number of cyber security incidents reported in 2020/21 were across state, territory and local governments**. This demonstrates this risk is important across all levels of government.

As well as impacting on a council's ability to operate and deliver services, cyber-attacks can significantly impact upon council reputation and create potential civil liability claims.

## TOP THREE CONCERNS FOR CYBER SECURITY

# 37%

Ability to proactively manage cyber security

# 22%

Awareness of potential for and response to a cyber attack

# 19%

Reliability and integrity of critical IT

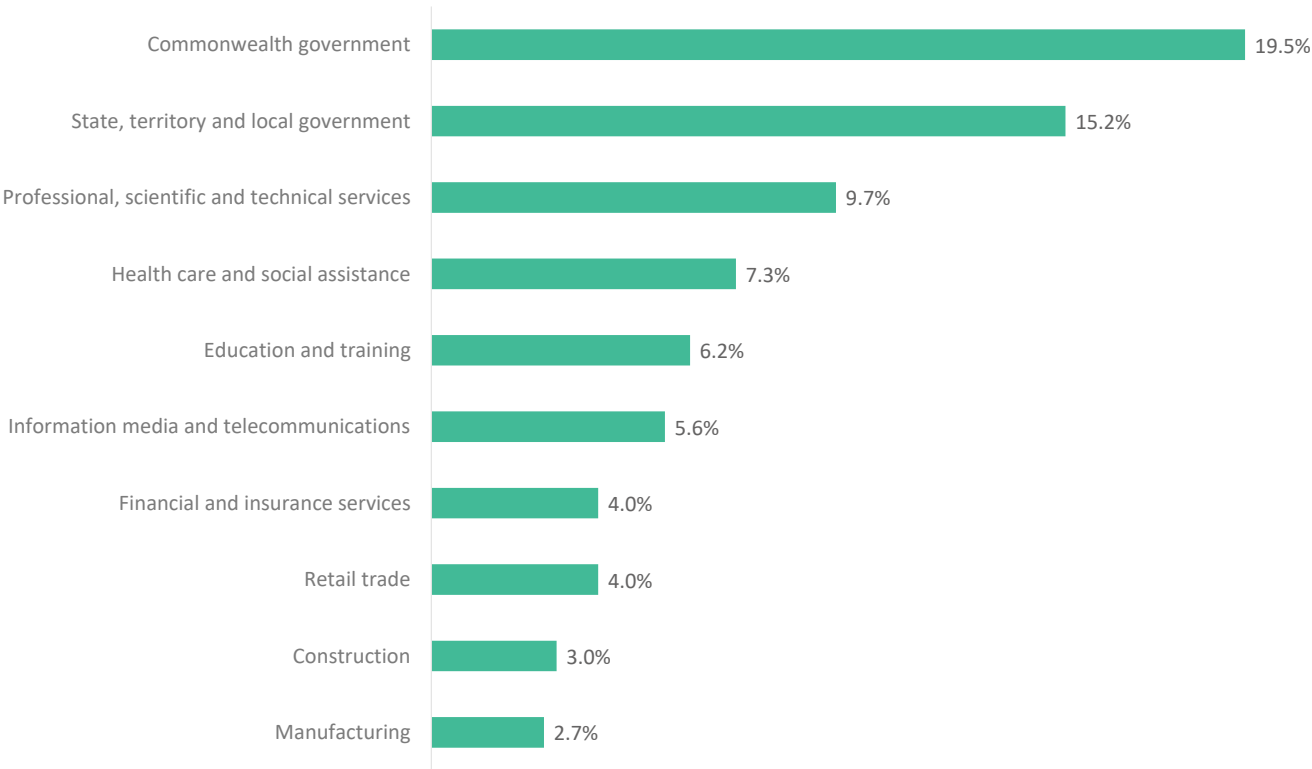


<sup>1</sup> Critical Infrastructure Ransomware Attacks, Temple University

<sup>\*\*</sup> Australian Government, ACSC Annual Cyber Threat Report, Australian Signals Directorate et al,



Figure 1: Cyber Security incidents by the top ten reporting sectors – 2020-21<sup>2</sup>



### 3. ASSETS & INFRASTRUCTURE

Estimates indicate that the value of the community infrastructure portfolio, managed by councils which has built up over generations – is today valued at more than \$345 billion<sup>3</sup>. It is also estimated councils require an additional \$30 billion to ensure their assets remain productive and safe. The links between the management of such a significant asset base and financial sustainability of local government is clear and integrated.

There is also significant pressures on local government to acquire assets through a range of sources too. From integrated planning, donations, land development, to infrastructure construction grants to meet anticipated service levels into the future. Rarely do these transfers involve significant long-term considerations like the whole-of-life cost implications, the underlying resilience suitability of the asset or potential for future legal liabilities. These issues can ultimately place even further stress on the capacity of councils to manage assets into the future.

The survey responses highlighted concerns with the capacity of councils to finance improved assets and infrastructure resilience prior to disaster events as well the exposure for councils to fund repairs for replacement or betterment to minimise future events. This is particularly so for assets that are not traditionally protect or insured u through traditional means, such as critical water and wastewater networks, stormwater infrastructure, roads and footpath networks. The relatively complex and resource intensive process in accessing financial support through the Natural Disaster Relief and Recovery Arrangements often result in councils and communities facing immense difficulties in repairing and replacing critical assets and infrastructure capable of withstanding future events

**Compounding this can be the transfer of responsibility for assets to councils from other levels of government, generally without the requisite level of funding needed to support ongoing management considerations.**

The recent frequency and severity of natural disasters across vast areas of Australia reinforces the significance of this risk being in the top five.

74%

Concerned about their financial capacity to manage assets, infrastructure.

57%

Have significant concerns related to natural disasters or catastrophe damaging critical infrastructure.

49%

Placed ageing property, assets and infrastructure as a high risk.



<sup>2</sup> Australia's Cyber Security Strategy 2020, Department of Home Affairs, Cyber Security

<sup>3</sup> Australian Local Government, 2018, National State of the Assets 2018 Roads & Community Infrastructure Report



## 4. DISASTER OR CATASTROPHIC EVENTS

The devastating bushfires of 2019/20 which impacted Australia, followed by floods in 2020/21 in parts of the country have had significant impact on local governments and their communities – and these impacts have been compounded by the unanticipated onset of a global pandemic.

The majority of respondents in the Risk Survey indicated concern about unpredictability of disaster events. 2020 was dominated by COVID-19. This following two unpredicted events is a perfect example of a number of events colliding, creating an unpredictable disaster. The recent Mansfield Earthquake in Victoria provides a clear and salient example for local government that unpredictable events will continue.

This highlights the importance of effective, strategic and risk management planning that informs the investment in mitigation decisions.

The increasing frequency, scale of and intensity of disaster events combined with the cascading effect of chronic, recurrent and local stressors has amplified the vulnerability of local communities. The Bushfires Royal Commission (October 2020) has conclusively identified capacity and capability as critical factors to mitigate the risk impact on vulnerable communities. The 2021 JLT Risk Survey shows councils are becoming increasingly occupied with extreme disaster events exacerbated by climate change.

Disaster risk is not just about tangible physical or economic impacts; they also bring interconnecting risks that have major consequences for councils and their communities.

When a disaster event looms, a council needs confidence that its capacity and capability, built around business continuity, emergency management, response and recovery plans are capable of:

- Limiting immediate impacts on the safety of life and property;
- Facilitating rapid and effective physical, social, economic and environmental recovery; and
- Mitigating domino effects arising from interconnecting and cascading reactions which impact on risk.

The increase of random events nationally highlights the impact on the interconnection of risks, as indicated in this year's survey results. The effectiveness of implementing business interruption plans, the timeliness to attract financial support, the disruption on chain of supply and impact on infrastructure all have a domino effect on the efficiency of the community's ability to recover.

Understanding a council's risk profile, identifying vulnerabilities and recognising capacity and capability are essential elements for developing plans and strategies capable of mitigating the impact of disaster risk while building resilience.

# 89%

Reported major concern with bushfires, floods, cyclones and terrorism events occurring

# 69%

Reported the unpredictability, uncertainty and severity of extreme events are an issue within this risk

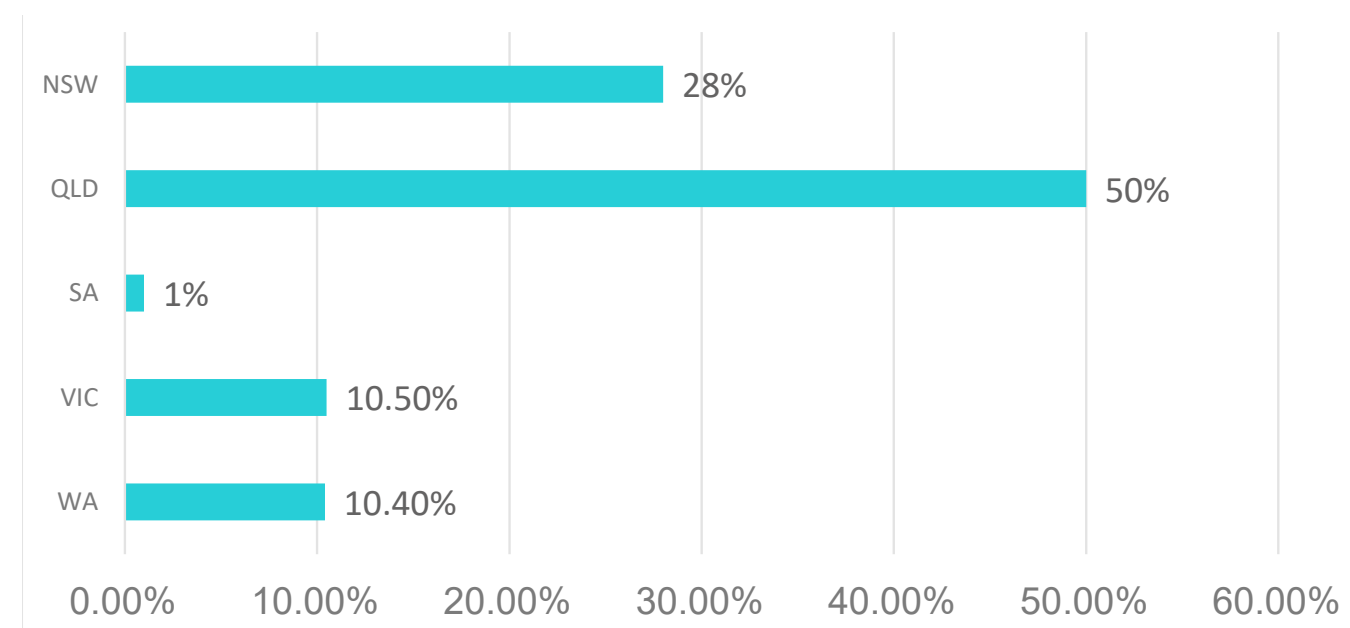
# 46

Australian disasters in 2020\*

# \$38B

Cost of Natural Disasters to the Australian Economy annually\*\*

Figure 2: Cost of Losses for Local Government per state - 2018/19 to 2019/20



In 2018/19 to 2019/20, local government nationally had losses due to natural disasters equating to \$47,348,362.



\*Australian Disasters, Disaster Assist

\*\*Deloitte - Special report: Update to the economic costs of natural disasters in Australia 2021



## 5. REPUTATION

The loss of community trust in a council is a serious concern for local government, with 33% of CEOs and GMs selecting this as their leading concern. With the bushfire events of the summer of 2019/20, the recent impact of COVID-19, scattered floods and ever escalating cyber-attacks, councils are required to manage increasing high pressure situations in addition to the day-to-day servicing of their communities.

There are growing expectations on elected officials representing our diverse communities across Australia. Balancing these undertakings with the fiscal responsibility of delivering best value administrative and community support is not always possible. The failure to meet public demands and expectations, then, results in a loss of trust in both council and its elected members.

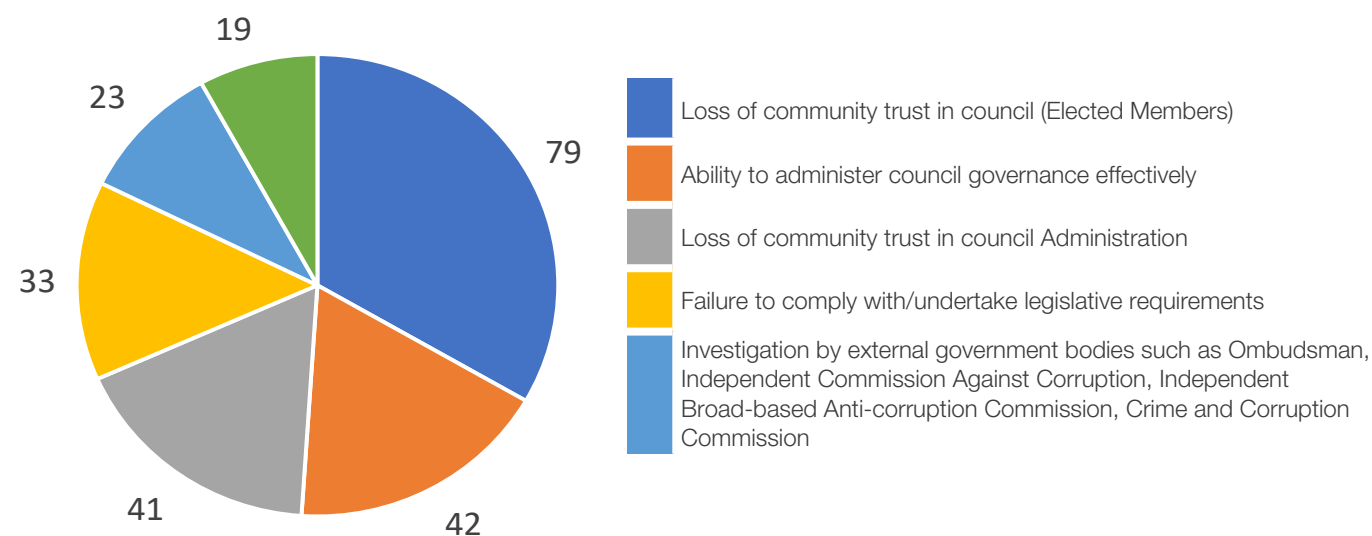
The ability of a council to administer governance effectively must be managed in equal measure with the need to maintain the community's trust. This was confirmed with 17% of Risk Survey respondents identifying these as equal issues.

The increasing number of Councillors and Officers claims over the past five years represents an additional indicator of reputational decline. These claims are escalating in both occurrence and quantum with the costs of defending them amplified due to their often sensitive and emotive nature. The common causes reported continue to arise from elected member conflicts, increased regulatory activity and employment disputes.

As more and more responsibility is being passed to councils from state and federal governments, failure to comply is an increasing concern in the sector. This, along with the issues surrounding elected member conflicts of interest and disputes, links with CEOs and GMs concerns they may be exposed to additional investigations by external government bodies. This also includes the ability to source the resources to deliver transferred responsibilities and the funding to implement.

Councils also have responsibilities for implementing COVID-19 restrictions on their operations that are developed by state governments, such as the management of outdoor dining, closure and reopening of public facilities such as skate parks, swimming pools, libraries and the use of the very wide range of council facilities. Local government has had to quickly adapt to constantly changing state directions which can also create strained relationships between the community and their respective local governments.

Figure 3: Reasons behind the risk of Reputation as a Local Government



## 6. BUSINESS CONTINUITY

Business interruption and community disruption have become front-and-centre issues for local governments as disasters, catastrophic events and the unexpected continue to significantly impact on councils and their communities across Australia.

Safe, sustainable, resilient and functional communities depend on well managed and maintained local government infrastructure, assets, functions and services with suitable plans in place.

Mitigating the impacts that severe storms, flooding, fires, communication outages, industrial accidents and other disruptive events is certainly a challenge. It also cannot be overestimated how important it is for critical business activities and services to either continue operating through these and to recover as speedily as possible thereafter.

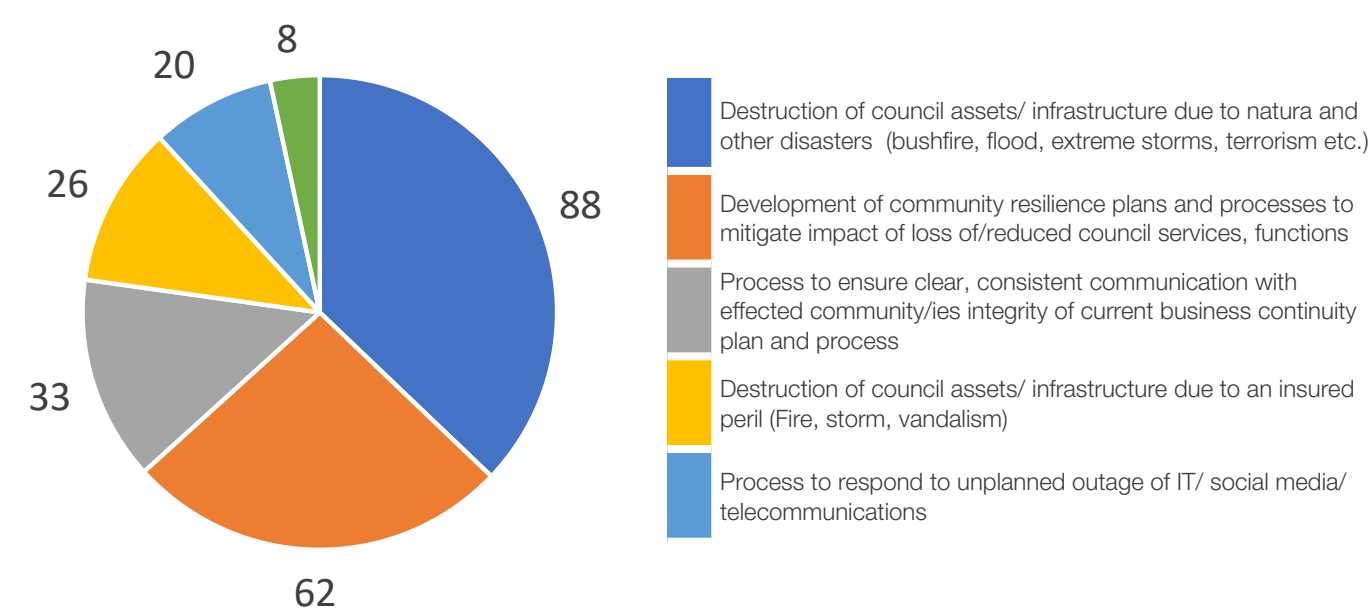
“This is why business continuity plans have such a critical role to play in guiding councils at every point when responding to ‘disaster’ events – small or large – and getting back on track,” says Nick Rossman, Senior Risk Consultant at JLT Public Sector. Robust business continuity plans help buffer impacts and position councils to achieve strategic and operational objectives, ultimately contributing to overall community resilience.

Respondents noted that business continuity processes rely on clear, consistent communication with effected communities and stakeholders, and that the effectiveness of plans will be compromised if inadequate or ineffective communication strategies and processes are not in place.

Respondents also noted that the connected concerns of destruction or damage to both insured and uninsurable assets and infrastructure as a result of these events.

COVID-19 has demonstrated clearly the importance of planning – even for the least likely of scenarios. Planning – and the role of business continuity plans – ensures agility is integrated into business processes so councils are able to respond to dynamic, unanticipated and protracted situations.

Figure 4: Ranking of reasons behind the business continuity risk





## 7. CLIMATE CHANGE OR ADAPTATION

Councils and their communities are already experiencing the impacts of a changing climate and, perhaps unsurprisingly, this was identified by CEOs and GMs as an issue of increasing significance in this year's survey.

The leading concern surrounding this risk to council CEOs/GMs is the implications of predicted climate change and the impact on business and its functions, with concerns focussed on the development of strategic policies related to climate change and adapting to it.

Climate change is one of the key sources and drivers of risk and there is growing momentum surrounding the role global heating plays in amplifying extreme weather and climatic events.

The Royal Commission into National Natural Disaster Arrangements conducted after the 2019/20 Black Summer bushfires found that climate change has already increased the frequency and intensity of extreme weather and climate systems. It is anticipated that activities such as the reduction of carbon emissions will be a focus for all levels of government.

The result of climate change account for events including flooding, drought, wind, coastal hazards such as sea level rise and erosion as well as extreme heatwaves and extreme meteorological events such as cyclones, convective storms and high-fire index weather.

In the **2021 Allianz-Risk Barometer report**, Michael Bruch, Global Head of Liability Risk Consulting/ESG at AGSC was quoted: *"2020 was the year of the pandemic; in 2021, climate change will be back on the board agenda as a priority. Climate change will require many businesses to adjust their strategies and business models in order to move to a low-carbon world. Risk managers need to be at the forefront of that change to assess the transition risks and opportunities related to market and technology shifts, reputational issues, policy and legal changes or physical risks. They have to help identify possible scenarios or evaluate the business and financial impact driving the overall low-carbon transformation of a company, together with other stakeholders."*<sup>5</sup>

It is paramount that councils prepare for climate change by understanding the local implications of climate-related risk and then develop and implement strategies to improve community and organisational resilience into the future.

“Local governments and their communities are on the frontline when dealing with the risks and impacts of climate change. Councils need to prepare for the unavoidable impacts of climate change”<sup>4</sup>

## 8. IMPACT OF PANDEMIC

As well as being a global pandemic and national health crisis, COVID-19 has severely affected local economies and the social fabric of many communities, with immense and far-reaching implications for local government into the future.

Although the initial whole-of-government and science-based response to the pandemic minimised the scale and severity of the health impacts experienced in other countries, the potential for rapid spread from new variants was challenging.

The pandemic has caused substantial nation-wide economic impacts, with significant income and employment losses and major upheaval in key economic sectors including health, education, aviation, agriculture, transport, supply, tourism, hospitality, manufacturing and community services.

The 2020 risk survey indicates 60% of respondents had emergency response plans relevant to a “pandemic”, however only 31% had corresponding business continuity plans that identified and contemplated these risks. This, coupled with limited experience in managing a novel viral pandemic of this scale and magnitude, reduced the capacity and capability of many councils to effectively identify, understand and manage these risks.

The delayed and at times controversial vaccine rollout, an inconsistent national response and at times unclear road maps to recovery, have significant ongoing implications for local government and, in conjunction with other events impacting some councils, this may hamper efforts to build resilient communities.

While the COVID-19 pandemic ranked 8th on the 2021 scale, the ongoing and cascading impacts of this event will continue to influence local government risk management well into the future.

### THE SURVEY TOLD US

# 60%

had emergency response plans relevant to a pandemic

# 31%

of respondents had corresponding BCP addressing the risks

# 31%

of respondents had corresponding business continuity plans



<sup>4</sup> Address the Risks of Climate Change – ALGA

<sup>5</sup> Allianz Risk Barometer, Identifying the Major Business Risks for 2021



# 9. STATUTORY AND REGULATORY REQUIREMENTS

The issue of rising administrative complexity and cost of continuous change with increasing and sometimes competing statutory and regulatory compliance regimes remain an ever-present challenge for councils across the country.

This has been compounded by significant increases in litigation and claims activity, including a number of high-profile investigations and proceedings against executive officers and elected representatives across all levels of government, effectively creating a feedback loop that has generated further change arising from the legislative and procedural reforms taken by the respective policy makers in response.

It is also anticipated that an increasing focus of individuals, stakeholders, interest groups and regulators on corporate governance structures and decision-making processes, related environmental, social and governance matters will ultimately result in further statutory and regulatory change and increased risk of related litigation for years to come.

However local government simply does not have access to the necessary funding and revenue-raising opportunities that are capable of adequately responding and adapting to the changing and expanding regulatory compliance environment.

This has profound implications for Financial Sustainability, and almost certainly contributes to this issue being identified by CEOs and GMs as the most significant risk for councils.

A focus on governance through integrated planning, monitoring, reporting and risk management that is founded on the principles of accountability, transparency, stakeholder and public participation, inclusivity and organisational efficiency and effectiveness seems obvious and critical, yet the costs to meet regulatory standards will simply remain out of reach for many councils.



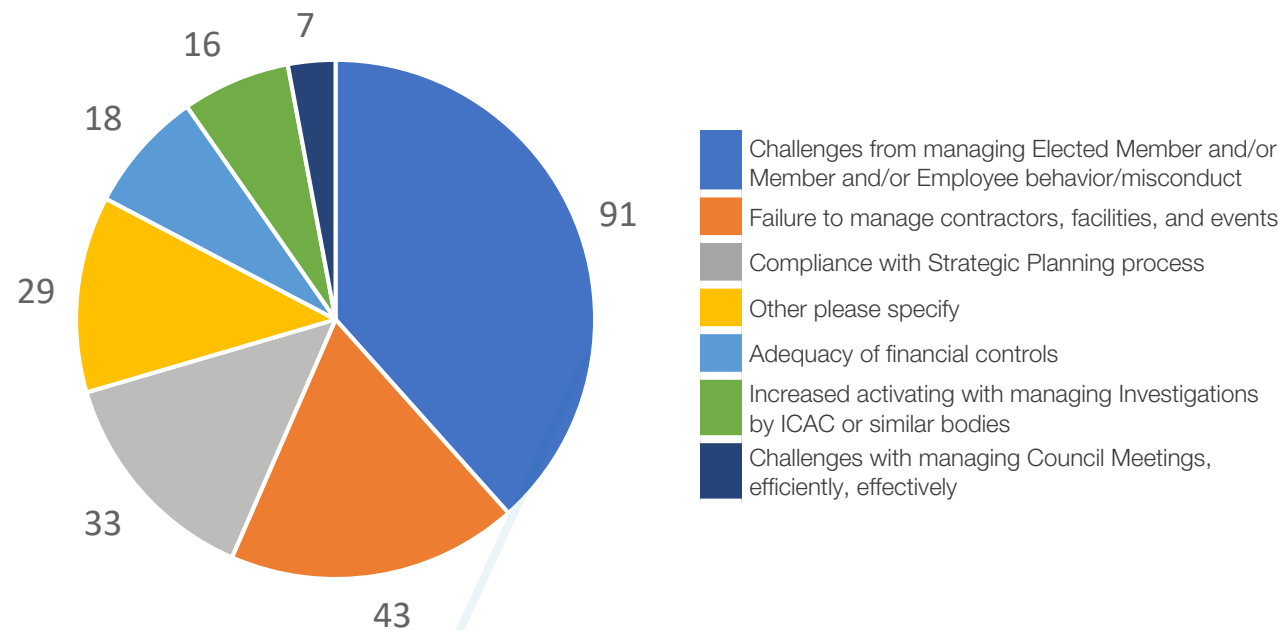
# 10. INEFFECTIVE GOVERNANCE RISK

Councils' ability to ensure compliance with applicable governance structures is under increased pressure. Failures to apply and monitor these structures has been an element in an escalation of claims in Public Liability, Councillors & Officers and Fidelity/Crime covers. Risk Survey participants noted that the challenges of managing elected member and, or employee behaviour was the leading concern. Issues arising from contract agreements and control management as well as the failure or inability to adequately manage contractors, facilities and events were also raised as a concern for councils.

Responses relating to 'other' concerns include referencing recent councils being placed in administration. Primarily this has resulted from irreconcilable differences between councillors, issues relating to management of financial spending/or controls, and inability to establish and implement strategic objectives.

The increasing prevalence, required resources and attention to conduct investigations and reports is also specifically noted as an ongoing issue.

Figure 5: Ineffective Governance Responses



# 11. WASTE MANAGEMENT

Waste services provided through local governments span kerbside collections, public waste management facilities of landfills and/or transfer stations and recycling being delivered either directly by councils or under contractual arrangements.

The cost and ability to effectively manage waste relevant to respective council areas was the leading reason for this ranking. The financial sustainability as well as the management of community expectations on council’s ability to manage its environmental responsibilities feature highly as reasons behind this risk.

These issues have been exacerbated by China introducing in 2018 a waste import ban and Australia enacting its own Recycling and Waste Reduction Act 2020, effectively banning exports of unprocessed domestic waste.

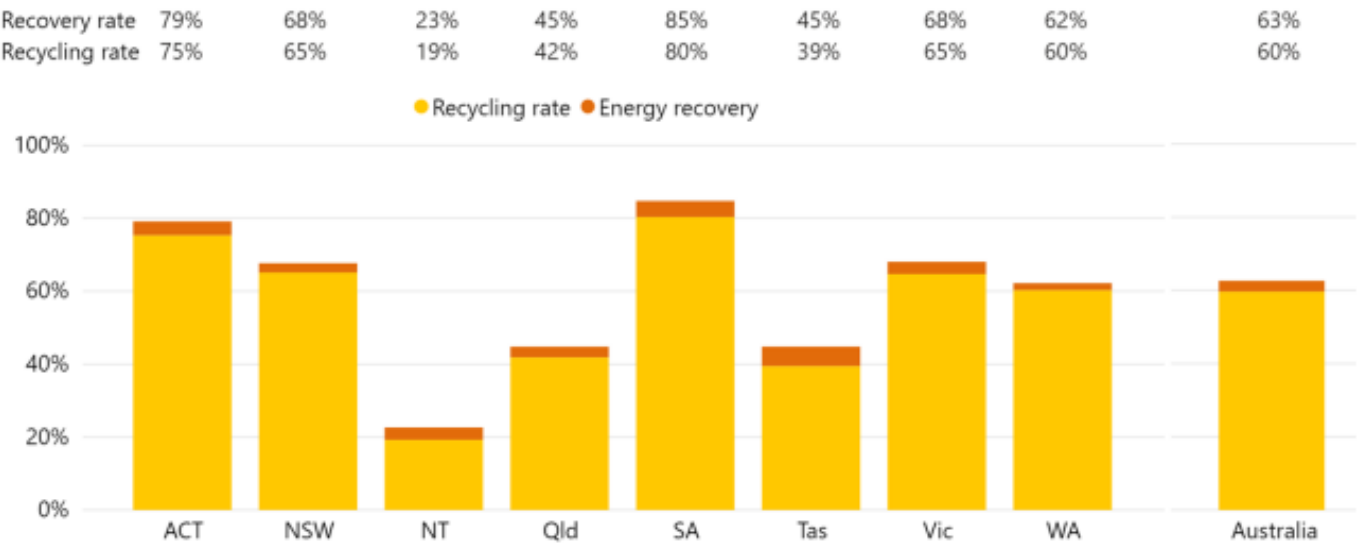
In 2018/19, the national resource recovery rate was 63%, and the recycling rate was 60%. These statistics are approximately only a 2% increase on the previous year demonstrating a slow move towards waste reform.

While we currently have limited domestic capacity to process much of the mixed plastic and paper collected through councils, the landscape is already changing. The introduction of this new law along with reduced overseas markets has forced local government and the waste industry to re think their waste strategies and invest in local infrastructure such as material recycling facilities (MRFs) to enable cost effective processing of comingled waste for the long-term sustainability of ongoing waste services and protection of the environment.

The industry is currently in a transition stage and there are various states within Australia investing in the infrastructure to cope with the increases in recovery and recycling rates. Local government entities that are now resourcing and investing in the infrastructure to manage waste moving forward are securing their ability to manage costs and deliver on community expectations.

In balancing increasing community expectations regarding waste management, councils should consider the difficulty with providing risk protection for these assets. To achieve the best protection outcomes, it is critical for councils to allow adequate time for discussions with JLT to evolve, be prepared to provide detailed risk management information and for previous claims experience to influence the costs associated with protecting these assets.

Figure 6: Resource recovery and recycling rates of core waste plus ash by jurisdiction, 2018-19\*



\* National Waste Report 2020

# 12. HR/WHS MANAGEMENT

All workplaces have a duty of care to ensure a safe workplace to protect workers from both physical and psychological harm. Local governments, by their nature, operate across an ever changing risk landscape and managing people risks understandably remains a key risk issue.

Respondents ranked the health, safety and wellbeing of their employees as the reason for this risk. The ability to support and manage its people risks requires commitment and action, both as an individual council and as the local government sector.

At the forefront is the ongoing impact COVID-19 has had on traditional workplace safety strategies which have significantly shifted gears to accommodate the changing working landscape.

This change in landscape has shifted people risk management with it extending beyond the workplace. It has highlighted the importance of health and wellbeing programs that promote healthy lifestyles and it has raised the profile of work life balance as a vital component in staff attraction and retention programs.

Councils remain faced with skills shortages, a difficult employment market, and the challenges of an ageing workforce. These were noted as factors within this risk and councils need to find structures that can attract and retain workers. Financial burdens, the political environment and increasing pressures on local governments creates resource constraints that also need to be managed effectively.

Despite the many changes and challenges, what remains clear is the moral and legal obligation to provide a safe workplace, adequate resources, the right equipment and information to support and continually engage workers. By investing in relevant and up-to-date policies and procedures that align with “best practice”, workplaces and will contribute to equipping workers with the knowledge, skills and experience to do their jobs.

“Local Government has ‘a much older workforce than the Australian all-industry workforce, with 53.7% above 45 years of age in local government compared to an average of 40.6% across all-industries’<sup>7</sup>



<sup>7</sup> Local Government Workforce and Future Skills Report Australia, 2018



# 13. CIVIL LIABILITY CLAIMS

Councils note within their response to the survey their exposures lay in understanding their risk profile and the management of their policies and processes. The potential failure to adequately undertake regulatory roles creates liability issues which can result in financial loss, property damage or injury to others.

Local government has a significant number of professional indemnity claims annually which 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.

Professional indemnity claims are also more frequently litigated which is one of the reasons for the increase of costs for these types of claims. Litigation is also more likely to result in an increased timeframe of the life of a claim.

It should be noted though, councils receive a far greater number of public liability claims as compared with professional indemnity claims. These claims relate to either personal injury or property damage suffered by third parties as a result of an occurrence or incident (something unexpected) for which the local government is allegedly liable for). Typically, a council will only be liable for these types of claims if they were previously notified of a problem or hazard and they have failed to take any action within a reasonable timeframe or their response was inadequate to the problem.

Whilst for the vast majority of claims local government is not found liable, it is important mitigation measures for identified assets and infrastructure have a robust inspection and maintenance program. This is due to council's responsibility for maintaining as well as having appropriate record management systems to ensure any work performed is sufficiently recorded.

44%

Had the equal ranking for two concerns within this risk:

1. Understanding council's risk profile and application of the risk management policy and processes
2. Ability to undertake due diligence when administering statutory/regulatory responsibilities

# 14. TERRORISM

Respondents rated terrorism at a lower risk level. Despite the lack of attacks in Australia, the small but highly visible attacks in New Zealand demonstrates the challenges in detecting and preventing such events.

At this time, the Australian Government rates its current National Terrorism Threat Level as "Probable"<sup>8</sup>. It has stated that "credible intelligence, assessed by our security agencies, indicates that individuals or groups have the intent and capability to conduct a terrorist attack in Australia."<sup>9</sup> Lone wolf attacks as well as Sunni Islamic groups remain the main concerns for Australia. Further, the recent events in Afghanistan raise concerns about renewed energy within terrorist networks.

Given these conditions, this issue should remain on local government risk radars. City, metropolitan and regional city councils should consider reviewing existing terrorism plans and business continuity plans.

COVID-19 has not substantially diminished the threat of terrorism in Australia. Lockdowns have limited in-person contact, but have probably increased online exposure to violent extremists, both religiously motivated and ideologically motivated, who are seeking to connect, inspire, influence and radicalise.<sup>9</sup>



<sup>8</sup> Australian National Security, National Terrorism Threat Advisory System

<sup>9</sup> Australian Government, Australian Securities Intelligence Organisation, Australia's Security Environment and Outlook










































# HIGHEST RISKS BY STATE

Table 1 shows Financial Sustainability and Cyber Security as the leading issues for all states/territories except the Northern Territory where Cyber was not ranked in the top five. Infrastructure and assets were ranked in the top five for all states/territories.

Due to the timing of the survey, the pandemic did not rank in the top five for all states.

Table 1: Top 5 Compared by State

NATIONALLY		WESTERN AUSTRALIA		TASMANIA	
	Financial Sustainability		Financial Sustainability		Financial Sustainability
	Cyber Security		Cyber Security		Cyber Security
	Assets & Infrastructure		Assets & Infrastructure		Business Continuity Planning
	Disaster/Catastrophic Events		Ineffective Governance		Impact of Pandemic
	Reputation		Climate Change/Adaption		Assets & Infrastructure
SOUTH AUSTRALIA		QUEENSLAND		NORTHERN TERRITORY	
	Financial Sustainability		Financial Sustainability		Financial Sustainability
	Cyber Security		Cyber Security		Regulatory/Statutory Requirements
	Business Continuity Planning		Assets & Infrastructure		Assets & Infrastructure
	Assets & Infrastructure		Business Continuity Planning		Waste Management
	Reputation		Reputation		Reputation
VICTORIA		NEW SOUTH WALES			
	Financial Sustainability		Financial Sustainability		
	Cyber Security		Cyber Security		
	Climate Change/Adaption		Disaster/Catastrophic Events		
	Impact of Pandemic		Assets & Infrastructure		
	Assets & Infrastructure		Reputation		

# THE KEY RISK INDICATOR REPORT METHODOLOGY

The 2021 Risk Survey was carried out in August 2021 with 237 CEOs and GMs participating. Respondents represented remote, rural, regional, metropolitan and city councils nationally. Data from the 2020 survey with 194 responses was also used within this report.

The purpose of the survey is to gain insights into CEOs and GMs of councils and how they perceive 14 key risks, ranking them from highest to lowest. Participants are also asked to provide the reasons for this risk ranking, providing further insights into the underlying concerns for each risk.

The survey investigates risks including cyber, disaster and catastrophes, infrastructure/property damage, financial stability, waste management, business continuity, reputation, governance, theft and fraud, errors and omissions, regulatory requirements, climate change, human resources/work health and safety and terrorism.

Subject matter experts across the business reviewed the results and were compared against current insights.

The outcomes from this feedback contributed to this 2021 JLT Risk Report to enable councils to consider and identify changing and emerging risks and possible approaches for the future.

## SURVEY RESPONDENTS

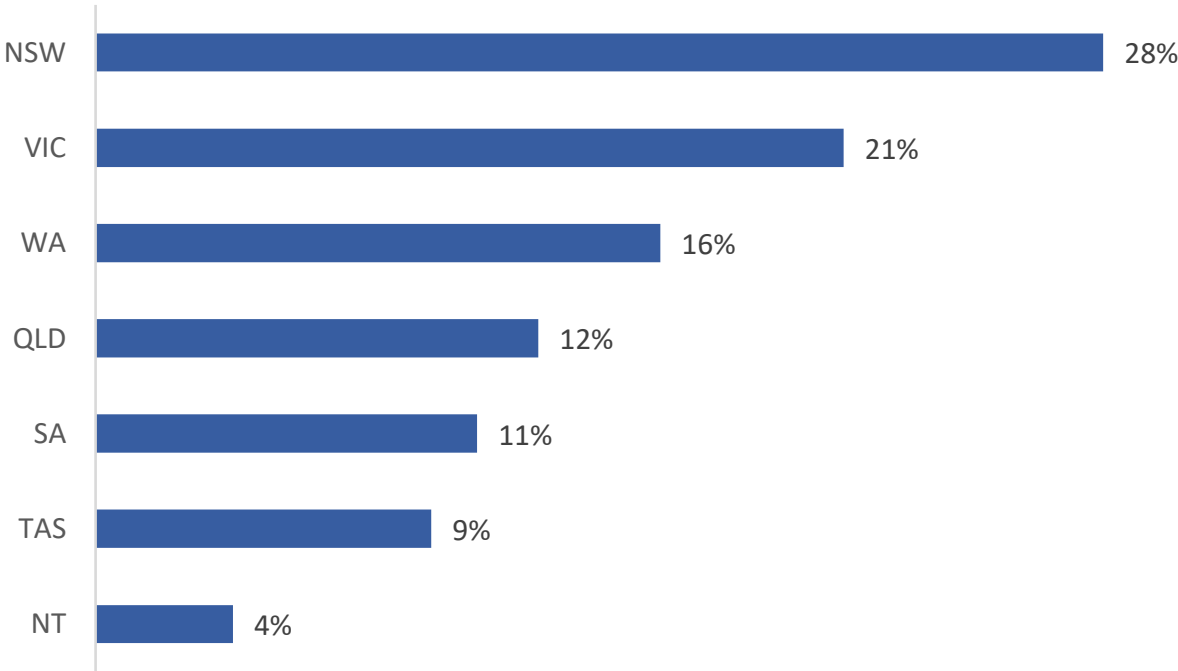
In 2021, 237 local governments participated in the JLT Public Sector Risk Survey. Councils from Western Australia, Queensland, South Australia, Victoria, Northern Territory, New South Wales and Tasmania responded. These councils represented city, metropolitan, regional city, regional and rural/remote communities.

Participants were asked to rank 14 risks in order of highest to lowest and provide further insights to what within these risks were concerns.

237

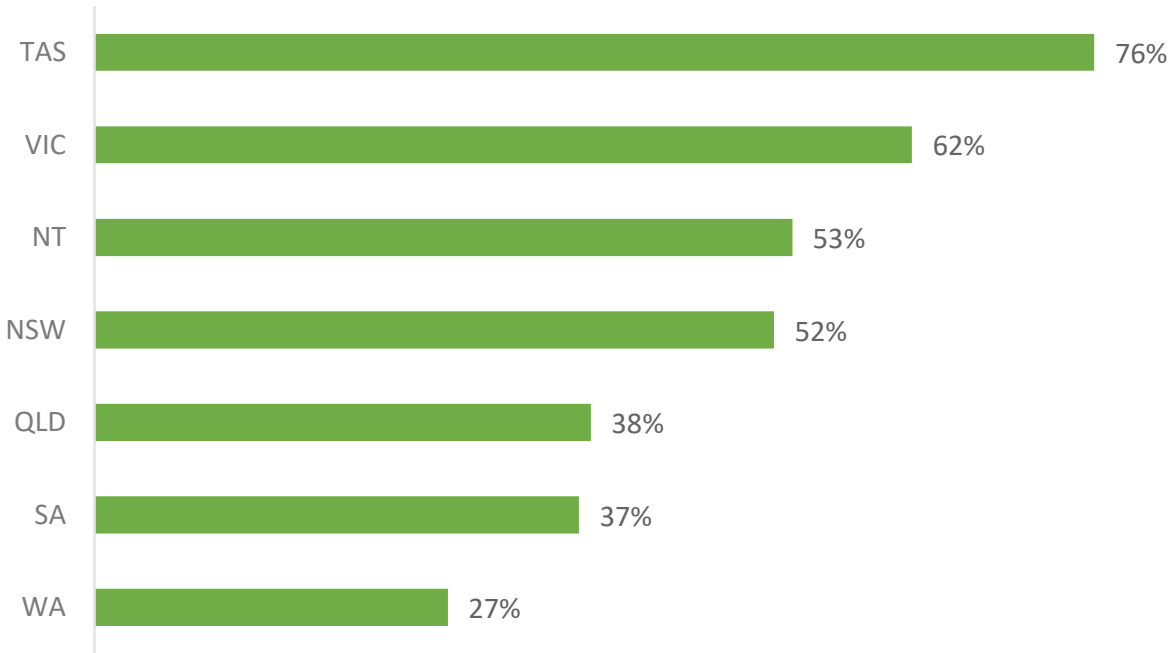
councils participated in the survey nationally

### State Representation Nationally

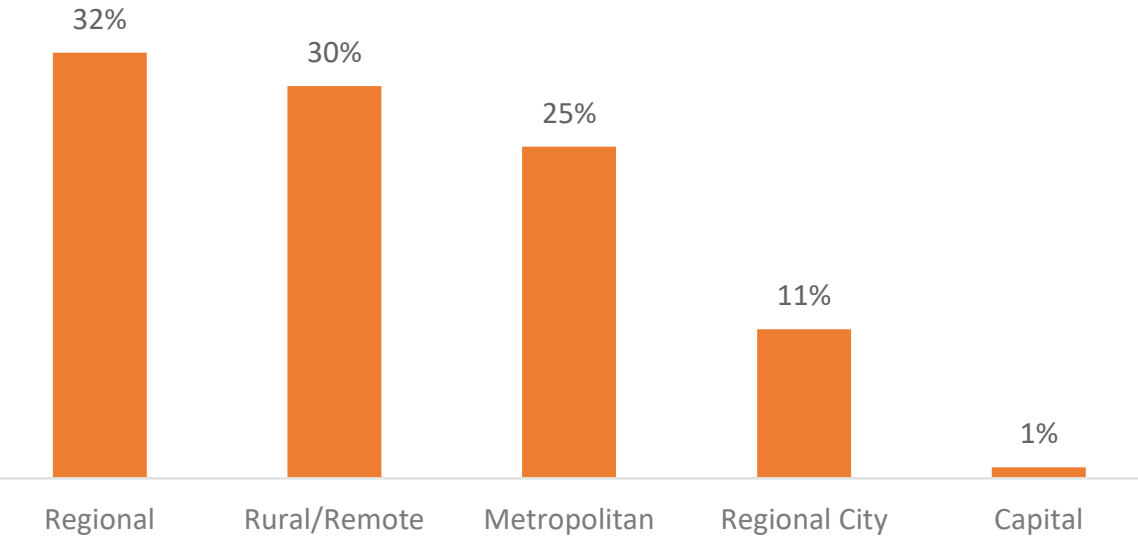




Percentage of Councils within each State who responded



Regions



This representation accounts for heavily populated communities through to small populations in remote Australia. Remoteness was based on the level of access to services.

# SUMMARY OF 2020

In 2020, 185 CEOs and General Managers from councils across Australia responded to the JLT Public Sector Risk Survey. Responses measured the key risks they viewed as a potential impact on councils. This survey incorporated for that year only, two extra sections surrounding emergency response and the pandemic.

You will note that Financial Stability remains as the number 1 risk, as in 2018 and 2019, yet due to the 2019/20 Bushfire season, risk factors shifted nationally driving the management of ageing infrastructure property and assets into second place. Disasters and catastrophic events moved up into third spot from 2019, yet Cyber security and reputational risk remained in the top five with Cyber moving up one from fifth place, and reputation as a local government with the community moving from third to fifth place.

2020 provided broader risk events via the 2019/20 bushfires and the pandemic. To enable data to be appropriately collected, we separated out the questions surrounding planning, preparation and impact of these two significant events to enable the risk report to be able to benchmark against prior years.

The following is the full table of risks ranked by CEOs and GMs for 2020.

## 2020 KEY RISK RANKINGS IN ORDER

- |    |   |
|----|---|
| 1  | Financial Sustainability                                |
| 2  | Assets & Infrastructure                                 |
| 3  | Disasters or catastrophic events                        |
| 4  | Cyber security  |
| 5  | Reputation as a Local Government and with the commun    |
| 6  | Business continuity                                     |
| 7  | Waste Management  |
| 8  | Statutory & Regulatory Requirements                     |
| 9  | Climate change/adaptation                               |
| 10 | HR/WHS Management                                       |
| 11 | Ineffective governance                                  |
| 12 | Theft, fraud and crime threats (including social media) |
| 13 | Civil Liability Claims                                  |
| 14 | Terrorism   |

GLOSSARY

Financial Sustainability	Financial sustainability and stability of a council
Cyber Security	Encompasses cyber security, data breaches and vulnerable IT infrastructure
Assets & Infrastructure	Incorporates the management of and/or damage to ageing infrastructure, property & assets
Disaster or Catastrophic Events	Disasters or catastrophic events
Reputation	Reputation as a local government and with the community
Business Continuity	Business continuity planning and community disruption
Impact of Pandemic	Impact from infectious diseases/pandemic
Waste Management	Waste management/environment management
HR/WHS Management	Implementation and maintenance and efficient, effective Human Resources and WHS management systems
Civil Liability Claims	Negligence causing civil liability claims against council

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