



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.

**The 2022/23 JLT
Public Sector Risk
Report highlights the
unpredictability of events
that are arising, the
indescribable effects
that are coming out of
these and how Local
Governments are at the
coal face of these events.**

NOTE FROM **GARY OKELY**

Welcome



Through 2019 to 2021, Australia experienced disruption and impacts from bushfires, cyclones and the pandemic. During 2022 the impact of La Nina brought new challenges for Local Government, with flood events impacting across four different states.

This fifth edition of the Risk Report charts the significant challenges that local government leaders identify, the interconnectivity of the risks on their radar and, as we see herein, the potential of a domino effect.

197 Council CEOs and General Managers contributed to the JLT Public Sector Risk Survey, providing their perspective on the greatest risks for the sector at this time. Local Government insights provide the basis of this report and we again incorporate our observations and knowledge of the industry to comment on these risks.

Unprecedented flooding events across the country and multiple local government areas leaving little to no time for communities to recover and prepare for the next event. These extraordinary events elevated the challenges that governments at all levels are facing, compounding the complexities and not allowing time for solutions to be

developed and executed to provide support and protection to their communities.

Additionally, the attacks on Optus and Medibank Private brought to the forefront the serious impact cyber criminals can have on organisations holding personal data. These incomparable attacks where the community were effected highlighted how organisations are cyber reliant and at the same time cyber vulnerable and continuous management of cyber security is so vital.

As different events unfold, the interconnectivity of risk and the domino effect of these risks on government and the community is clear.

Thank you to all the CEOs and General Managers who participated in the survey. Your contribution is a vital attribute of the JLT Public Sector Risk Report.



GARY OKELY
Head of JLT Public Sector, Pacific



 **TOP 10 RISK**



Financial Sustainability

The perennial 'number one risk' for the sector. Financial constraints to invest in the future and manage community expectations, being a common theme. The underlying factors varying greatly across the sector.



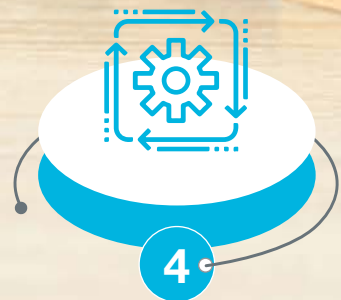
Cyber Security

With two major attacks on organisations gaining personal client data, the focus is on how to protect constituent data.



Assets & Infrastructure

With the major disaster and catastrophic events in 2022 – the impact on aged infrastructure is a serious concern.



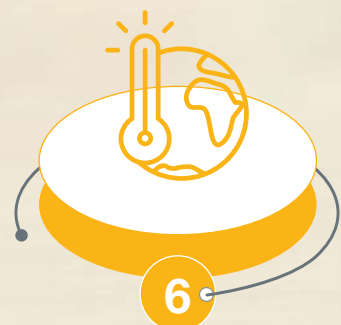
Business Continuity

The events of the past three years have impacted Business Continuity. This has a domino affect to Council servicing the community.



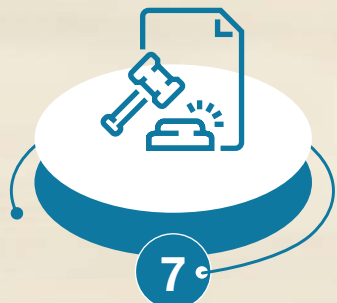
Disaster & Catastrophe

Continuing floods in the same regions has showcased disasters and catastrophes never seen in Australia. Communities have not been able to recover before a major event has occurred again.



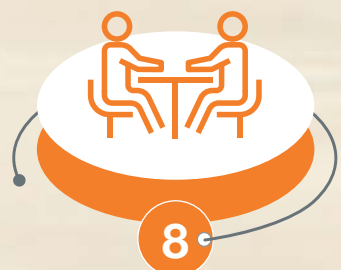
Climate Change

Climate Change is affecting councils specifically through disaster and catastrophe. The unpredictability makes it difficult to develop and implement new policies and programs.



Statutory & Regulatory Requirements

The continued shifting of responsibility to Local Government along with new regulations, does not incorporate resources to equip Councils to maintain requirements.



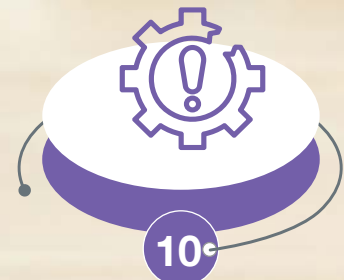
HR Management

Attracting and retaining professional staff due to not having the financial capacity to meet the market.



Waste Management

The ability to manage waste and meet community expectations surrounding managing waste environmentally are a concern for Council.



Ineffective Governance

Linking to Financial Sustainability, the inadequacy of financial controls. Concerns around misconduct or challenges from employees or elected members lead this.

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EXECUTIVE SUMMARY

In 2022, local governments and communities continued to be impacted by unprecedented natural hazard events that quickly escalated to disaster status.

Data indicates the devastating floods that swept through south-east Queensland and northern New South Wales in late February and early March 2022 caused \$5 billion in insured damages. Rated the third most costly extreme weather event in Australia's history, the 2022 east coast flood is now the most costly flood event in Australian history.

While climate change is described as the cause for delivering such an intense period of natural disasters, lack of local knowledge, inability to prepare, inadequate resources to respond and access to contemporary data results in a country that is unable to cope. Lack of capacity and capability across all levels of government to prepare, respond and protect communities against the impacts of natural disasters continues to overwhelm local governments and devastate communities.

The JLT Public Sector Risk Report (Risk Report) highlights all of the above. The key "risks" that keep a CEO/GM up at night, continue to highlight financial sustainability, climate change, disaster/catastrophic events, cybercrime and governance. The extremity of the flow-on effects of these circular risks are at the coal face for local governments.

The Risk Report provides a measure for the maturity of local government's strategic risk profile. CEOs and GMs recognise the risks and the underlying reasons why they are ranked as set out in the Report.

The 2022 events, off the back of previous disasters, continue to focus the lens on financial sustainability. While climate change continues to be a key risk, the risk of impacts of disaster/catastrophic events on communities here and now has understandably leapfrogged climate change in the list.

The 2022 survey responses include feedback that highlights the need to understand what makes a council vulnerable and how investment in mitigating the impacts of hazard events will support vulnerable communities.

Local government has been confronted with a myriad of issues as impediments from the pandemic have lifted. Across Australia, Federal and State Government elections have transpired and caused a shift in the political landscape. Globally the economic fallout caused by Covid-19, impacted and continues to impact tourism, aviation, health, building and government sectors. These occurrences have further been affected by chain of supply issues, the Russian-Ukrainian War and inflation, contributing to a domino effect on increase of costs across the local government sector.

The Report highlights concerns for the emerging risks CEOs and GMs continue to face at an executive level. Ability to oversee and ensure compliance with good governance highlights the value of measuring sustainability (ESG).

The interconnectivity for these risks continued to be acknowledged in this year's report, with the top six contributing to the overall key risk - financial sustainability.

The findings of the survey also demonstrated a domino effect. As one risk is impacted by an event, it falls and topples into the next risk creating a circular list of key risks, all impacting on each other.

The survey responses recognise the domino effect disasters and catastrophes have on assets & infrastructure, in particular ageing and/or inadequate infrastructure. Outside of disasters, the survey indicated issues around the cost of upgrade or betterment of infrastructure and the ability to appropriately manage assets as an ongoing concern.

In response to disaster events, compounded in some situations with successive disaster events, there is an identified need to have in place effective business continuity plans. The survey results established the interconnection between the event and sustainability of business continuity plans, extending to information technology capabilities.

Compounding the issues for local government is the heightened awareness and reality of what a cyber-attack can mean for a council organisation; in particular the risk of exposure of personal information of the community.

The major and public attacks on Optus, Medibank and Latitude brought to the forefront the vulnerability of public facing organisations in relation cyber security.

While appropriate risk transfer (insurance) is important, the importance equally lies in risk mitigation. The Australian Cyber Security Centre's Annual Cyber Threat Report said "critical infrastructure networks are being increasingly targeted" with the "rapid exploitation of critical public vulnerabilities"¹ becoming the norm.

The Risk Report has cyber risk remaining at ranking number two - demonstrating CEOs and GMs continue to recognise that maturing the strategic risk reduction framework aligned with strategic plans and informed budgets is paramount to successful ongoing business.

Local Government is the pillar of its community. To be able to better support communities, councils need financial and resource support to have in place effective strategic plans, budgets and risk reduction initiatives that are able to contemplate unforeseen and unpredictable events.

The annual contribution by CEOs and GMs in responding to the Risk Survey enables JLT Public Sector to deliver powerful information and data that gives the Risk Report integrity and continue to provide valuable insight into the thoughts and views of the sector's leaders as strategic and financial considerations continue to mould the key risk framework of local government in Australia.

¹ Australian Government, ACSC Annual Cyber Threat Report, Australian Signals Directories et al

2022

The 2022 Survey provides compelling insight of local government executives from across the country. There are certainly similarities in the risks that concern the sector, but the underlying reason behind the concerns can vary, depending on the State, geography (metro and regional) and the local regulatory environment.

This year, JLT Public Sector interviewed the CEOs of two Councils, asking for insights they have in particular risks within the survey. This provided deeper information into what Councils are facing within these risks. We thank Troy Green of Tweed City Council and Glenn Pattison of Casey City Council for contributing to this year's Risk Report.

We made changes to how Councils responded to the survey. Rather than choosing the leading reason for why they selected a risk, we gave the opportunity for respondents to rank the underlying reasons driving their perception of the risk. Using these findings, along with the historic data, we hope this report continues to help Councils consider how they approach risks, consider their vulnerabilities and shape their frameworks.

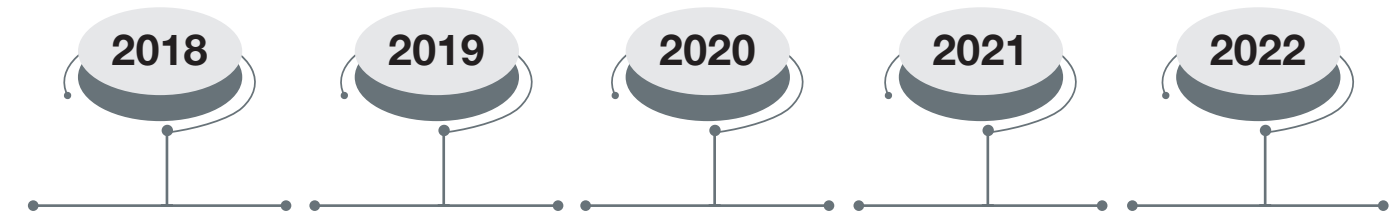


As different events unfold, the interconnectivity of risk and the domino effect of these risks on government and the community is clear.

GARY OKELY
CEO, JLT Public Sector

THE MOVEMENT OF THE TOP FIVE RISKS 2018-2022

The following diagram maps the movement of top risk rankings from 2018 to 2022. This diagram demonstrates how risks have shifted and in particular how business continuity has become a focus for Local Government – reaffirming the importance of councils' understanding their risks and vulnerabilities and working to put mechanisms in place through their risk framework.



2018	2019	2020	2021	2022
Financial Sustainability	Financial Sustainability	Financial Sustainability	Financial Sustainability	Financial Sustainability
	Cyber Security	Assets & Infrastructure	Cyber Security	Cyber Security
		Disaster or Catastrophic	Asset & Infrastructure	Asset & Infrastructure
	Natural Catastrophes	Cyber Security	Disaster or Catastrophe	Business Continuity
				Disaster or Catastrophe
Asset & Infrastructure	Asset & Infrastructure	Business Continuity	Business Continuity	
Natural Catastrophes				
Cyber Security				
Business Continuity	Business Continuity			

RISK RANKINGS

2018-2022

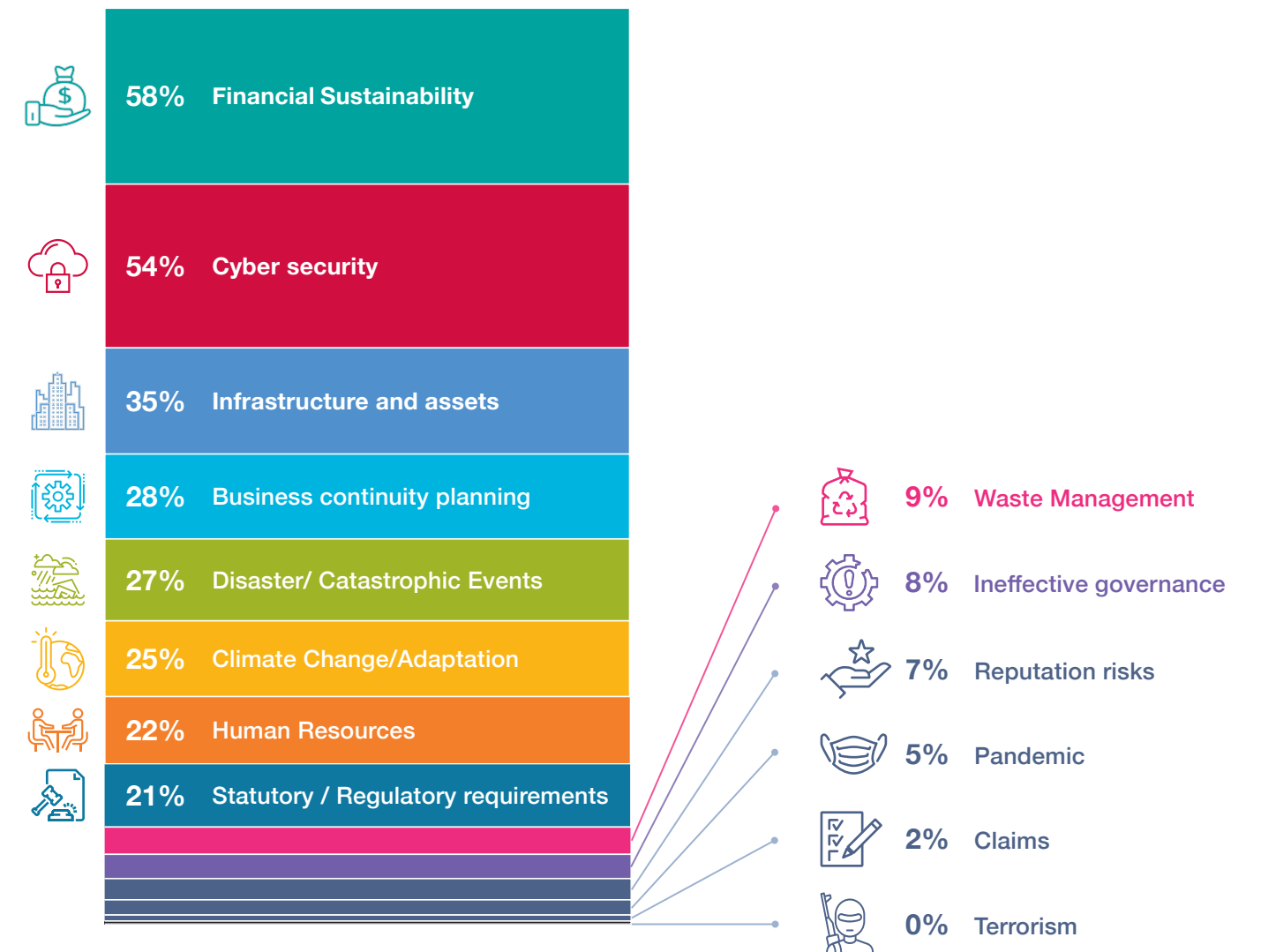
	2018	2019	2020	2021	2022
Financial Sustainability	Financial Sustainability	Financial Sustainability	Financial Sustainability	Financial Sustainability	Financial Sustainability
Theft, fraud and/or crime	Cyber Security	Assets & Infrastructure	Cyber Security	Cyber Security	Cyber Security
Reputation	Reputation	Disaster or Catastrophic	Asset & Infrastructure	Asset & Infrastructure	Asset & Infrastructure
Statutory & regulatory Requirements	Natural Catastrophes	Cyber Security	Disaster or Catastrophe	Business Continuity	Business Continuity
Environmental Management	Climate Change/Adaption	Reputation	Reputation	Disaster or Catastrophe	Disaster or Catastrophe
Asset & Infrastructure	Asset & Infrastructure	Business Continuity	Business Continuity	Climate Change/Adaptation	Climate Change/Adaptation
Natural Catastrophes	Statutory & regulatory Requirements	Waste Management	Climate Change/Adaptation	Statutory & regulatory Requirements	Statutory & regulatory Requirements
Cyber Security	Ineffective governance	Statutory & regulatory Requirements	Impact of Pandemic	HR Management	HR Management
Business Continuity	Business Continuity	Climate Change/Adaptation	Statutory & regulatory Requirements	Waste Management	Waste Management
Ineffective Governance	HR/WHS Management	HR/WHS Management	Ineffective Governance	Ineffective Governance	Ineffective Governance
HR/WHS Management	Environmental Management	Ineffective Governance	Waste Management	Reputation	Reputation
Errors, omissions or civil liability exposure	Errors, Omissions or Civil Liability Exposure	Theft, fraud & crime threats (including social media)	HR/WHS Management	Impact of Pandemic	Impact of Pandemic
	Theft, fraud and Crime	Errors, omissions or civil liability exposure	Civil Liability Claims		
	Terrorism	Terrorism	Terrorism		

THE RANKING OF THE 12 RISKS

The two major cyberattacks on Optus and Medibank Private in Australia in 2022 contributed to continuing concerns about Cyber Security and the Breach of Data keeping Cyber Security top of mind in local government.

With the ongoing effects of devastating events of 2019, 2020 and 2021, the destructive floods of 2022 held influence on how risks impact local government. The impact of floods in New South Wales, Victoria and Queensland has maintained concerns around business continuity, disaster and catastrophic events continuing to be in the sights of Council.

Highest Ranking by respondents - Ranked 14



This report demonstrates that Councils are recognising the interconnectivity of risks and the domino effect they have on each other. Even with particular risks moving within the ranks, they know the impact of one risk will have a chain reaction across a number of others.

FINANCIAL SUSTAINABILITY



1



One of the biggest issues with the national disaster relief is liquidity.

TROY GREEN
CEO, Tweed City Council

The evolving local government risk environment continues to present council executives with challenges in developing and resourcing business plans that enable the delivery of the organisation's strategic direction.

Catastrophic events, many being weather related, continue to dominate the local government landscape. The new post-Covid work environment and community expectations provide Executives with challenges and opportunities; and the ever changing exposure to cyber related crime has challenged Local Government like no other time in history.

Since 2018, Financial Sustainability has been ranked by Risk Survey respondents as the number one concern they face. While councils benefit from the relative stability of annual Council rates which increase modestly most years, it is the escalating cost of meeting community expectations with maintaining and modernising public living spaces and key public assets - including ageing assets - which presents executive teams with major planning and budgetary hurdles year-on-year.

There are certainly similarities in the type of financial challenges faced by metro and regional councils across Australia. Not only are they navigating the ongoing cost shifting from state to local governments but also a disproportionate allocation of needed Federal Assistance Grants (FAGs). The ever increasing impost of compliance across all aspects of local government additionally makes recruiting appropriately experienced staff in a competitive jobs market an ongoing challenge.

Competition for talent across the country increase intensely and a common theme is that local government has lost both talent and capacity in recent times as employees are attracted to the private sector. The general consensus is councils are a great platform for developing skilled talent due to the breadth and diversity of operations, services provided. This is further exacerbated in regional areas where talent attraction and retention has always been difficult.

Local government in most states is also responsible for the care and maintenance of many critical state-owned assets which are leased to councils. The arrangements were often cast years ago when the assets were in reasonable conditions either through rates or grants to maintain the assets in line with community or regulatory expectations. An example is jetties and wharves which are extremely expensive to maintain and replace but are seen as a critical asset to a town's tourism and local economy. If closure was to occur, the impacts would be far-reaching with broad financial implications for the community and its visitors.

Financial sustainability and the underlying risks can vary depending on the geographic location and demographic mix of each community. This report endeavours to unpack some of these challenges.

Weather-related events continue to rate as one of the biggest risks councils face, compounded by the continual moving responsibilities on from federal and state jurisdictions to local government with minimal to no financial support for these transferred responsibilities.

The impacts that have occurred across the past three years are not well supported financially through the FAGs. In 1996, 1% of Commonwealth taxation revenue was committed to FAGs but by 2017 this had dropped to only 0.55%¹. This is despite population growth, increased responsibilities, along with the surge in disasters, catastrophes and the pandemic.

“One of the biggest issues with the national disaster relief is liquidity,” says Troy Green, of Tweed City Council. “The process after a disaster places a great deal of strain on the financial position of local government.” In some cases, councils are drawing down on limited unrestricted cash reserves to pay for the immediate requirements of day to day expenses and rebuild the community after a disaster. In some instances, it can take years before the money is reimbursed as per the guidelines.

“Disaster impacts all capital works programs,” continues Mr Green, “focus is completely on rebuild and programmed capital works are impacted. This affects financial sustainability of council and conversely our ‘Fit for the Future’ asset renewal and maintenance ratios.”

The largest concern is that there is cost shifting moving from other governments with no increased funding to local government to assist. 41.62% of respondents of the risk survey ranked cost shifting as the leading issue underpinning Financial Sustainability which impact councils. This was followed by 35.53% of respondents ranking insufficient rate revenue or growth to support the delivery of services.

In many instances, local government is managing infrastructure and assets built after the second-world war and delivered during the Australia Boom. Today, this sector manages physical assets valued at \$523B.

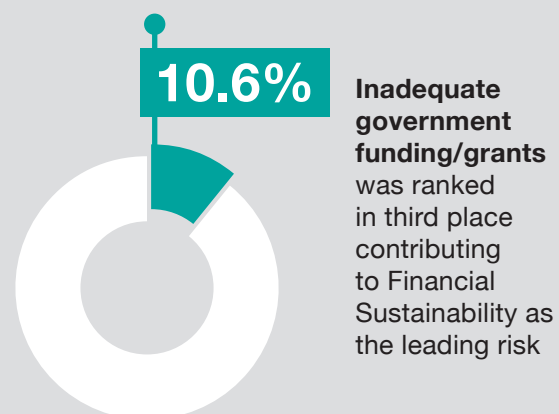
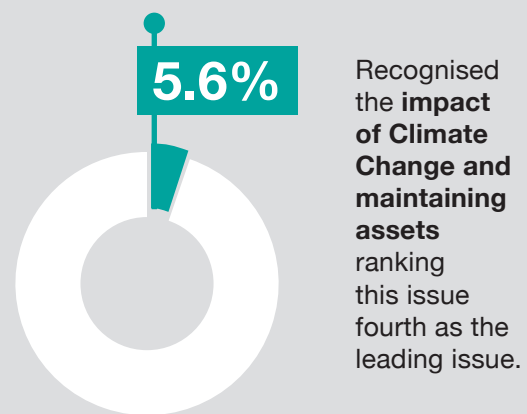
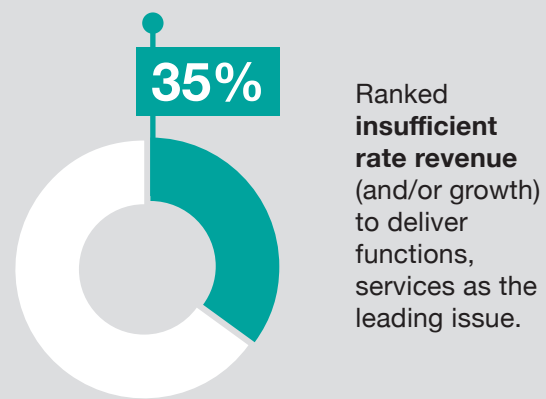
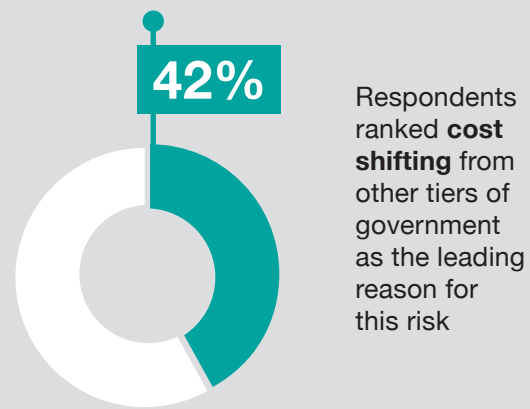
With the four highest-ranking concerns for councils associated with assets, it is little surprise these impact on the sector's Financial Sustainability outlook.

As noted in 2021, councils continue to be limited in how they can increase revenue in order to deliver operational requirements. This provides considerable pressure to meet the demand and expectations of the community. Rate pegging continues to impact Councils and with such constraints in place, grant funding stagnating, the ability for Councils to maintain Financial Sustainability is minimal placing a burden on how local government can maintain services to the community.

¹ LG Professionals Australia, Local Government Professionals 2020-21 Pre-Budget Submission, December 2019

² Australian Local Government Association, 2021 National State of the Assets Report

Financial Sustainability survey results



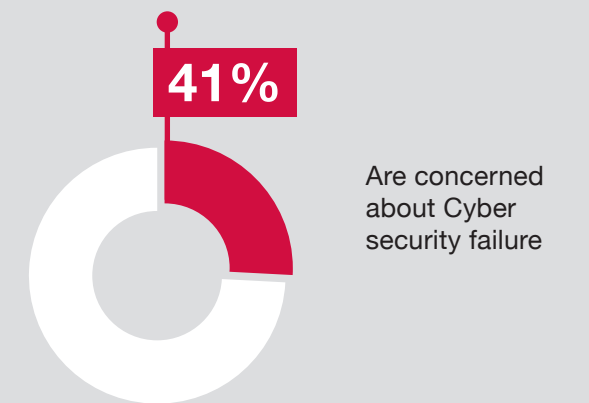
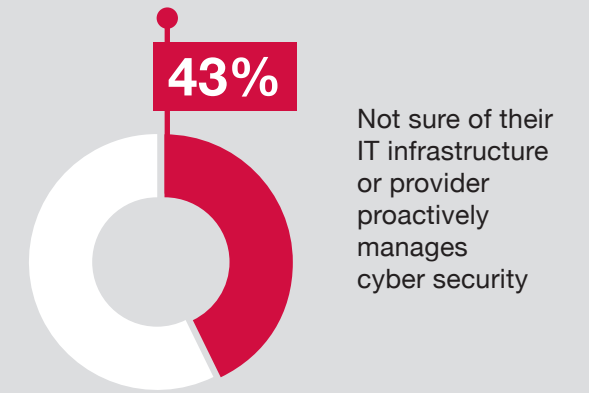
The frequency and sophistication of malicious cyber-attacks against organisations is increasing. This increase affects online services at all levels of government, within businesses and the community due to the increasing dependency on the internet and hybrid working models. These circumstances provide greater opportunity for cyber-criminals to exploit vulnerabilities within the broad range of technology being used in society.

With COVID19 fast-tracking how work, school and engaging with people and organisations, take place virtually solutions were quickly developed using technology. Councils were no different and needed to respond and reshape how services could be delivered online and from the home environment where possible.

Over 43% of Councils listed their leading concern underlining the issue of Cyber Security as not knowing their vulnerability of IT infrastructure and their proactive ability to manage cyber security. The second ranking issue at 25% was their concern on cyber security failure. These two are supported by the fact that when ranking what underpins this risk, Local Government is not confident it is not aware of potential attacks and how they would respond.

Cyber has also been affected by the disaster and catastrophes in 2022 impacting business continuity.

Troy Green of Tweed City Council noted, “This has led to the need to look at how we manage and deliver our services differently. When we lost access to our services during the floods and the NBN was taken out, we couldn’t be as effective or efficient. This has led us to evaluate our BCP and look at moving everything to the Cloud. By moving our core applications to software as a service (SAAS), our services will continue, in any event, as our people can work from any location. By looking at outsourcing to the Cloud, we are outsourcing our cyber risk as well as addressing the business continuity aspect with the added benefit we have our data in a secure vault, backed by Tier 1 vendors”.



The Australian Cyber Security Centre reported in its 2022 Annual Cyber Threat Report, there were over 76,000 cybercrime reports in the 2021/2022 year, an increase of nearly 13% on the previous year. This was attributed to state sponsored cybercrime incidents, Australia’s prosperity attracting cybercriminals, evolution of ransomware attacks and the rapid exploitation of critical public vulnerabilities.³

Through the work JLT Public Sector has performed in partnership with our Council clients, it is clear that basic cyber-controls such as email filtering, web security, managing secure system configurations and keeping secured, encrypted and tested backups is relatively commonplace. However other controls require a renewed focus including endpoint detection and response, privileged access management and multifactor authentication to enhance the sector cyber-security posture.

The Allianz Risk Barometer found Cyber as the highest issue that organisations globally are facing and second in Australia. This was pipped by Business Interruption.⁴

³ <https://www.cyber.gov.au/sites/default/files/2022-11/ACSC Annual Cyber Threat Report 2022>

⁴ Allianz Global Corporate & Specialty, Allianz Risk Barometer 2022

Councils are responsible for approximately one third of Australia's public sector owned assets and infrastructure. The most recent estimated value of this portfolio exceeds \$523 billion annually and costs over \$35 billion to manage.⁷

Figure 1 depicts the split over a range of asset classes. The Australian Local Government Association (ALGA) estimates that of the total portfolio under council control, nearly three of every 100 assets require replacement and one in 10 assets require urgent attention. The cost of this is considerable, with estimates for replacing infrastructure in poor condition sitting in the order of \$51 billion and those in fair condition ranging up to \$138 billion.⁶

To put this into perspective, the cost of replacing the assets in poor condition exceeds the total annual revenue available to local government.

It should be noted, those estimates were compiled before the surge in inflation over the course of 2022 and into 2023 and do not directly account for the cost to councils to adequately manage and maintain the remaining components of the total infrastructure portfolio.

This clearly has significant implications for councils and highlights the strong interconnectedness between asset management and the underlying financial sustainability of the sector. This has a domino effect with significant implications for liability exposures associated with local government operations.

Further, it is recognised that this is potentially not just a liability matter, but could possibly incorporate property as assets in poorer condition are more vulnerable to loss. This in turn has implications for continuity of operations, reputation among the community as custodians of assets.

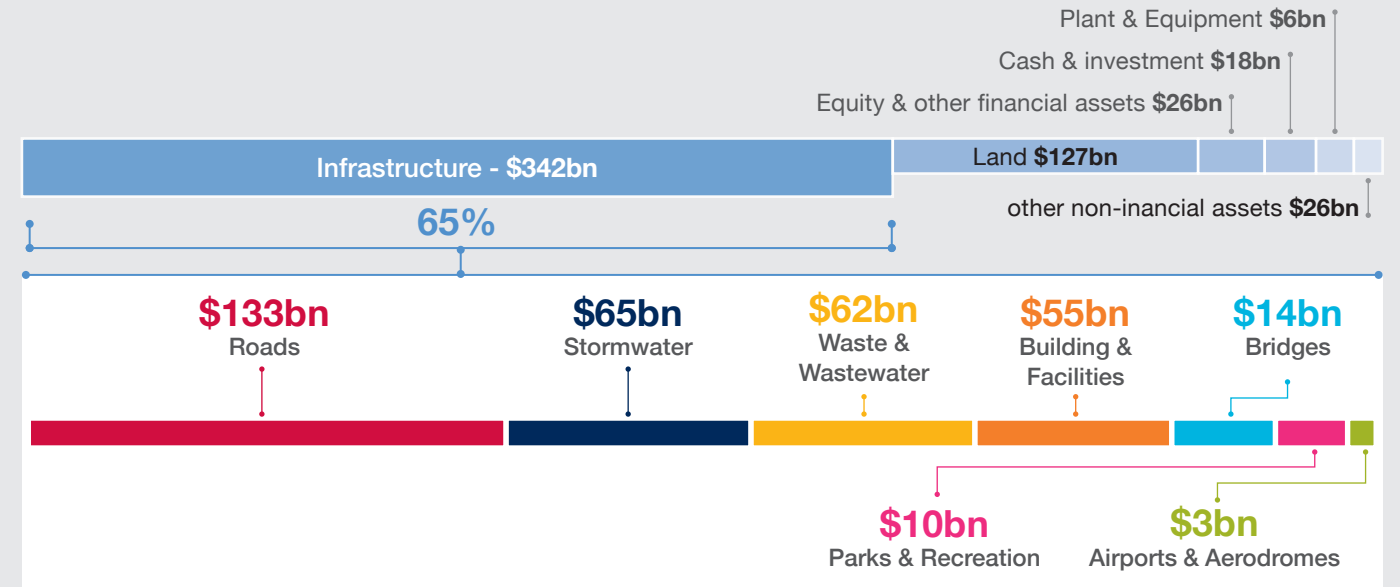


Figure 1: Value of financial & non-financial assets control by local government (June 2020)⁶



3 ASSETS & INFRASTRUCTURE

Figure 2 highlights that councils do not believe they have the capacity to finance the management of infrastructure assets and this is the biggest risk driver across the sector. This is exacerbated by inflation and supply chain disruption and disaster impacts. These, along with betterment in recovery were identified and are seen as interrelated and compounding factors.

Equal second place of underlying issues to management of assets and infrastructure is the cost of upgrading or betterment of repairing these. For example, councils are finding assets have shorter lifecycles and the funds to deliver new assets is not achievable.

For example, City of Casey has concerns surrounding open space assets such as playgrounds and sports fields.

“Such assets have a shorter renewal cycle” says Glenn Pattison, CEO of City of Casey. “While in recent years efforts have been made to increase the funding envelope for this asset class, other pressures on the capital program, along with a need to move developer contribution funds into project delivery creates a tension between the new and renewal requirements.”

This underlines the imperative for a substantial expansion to the funding that is available to councils from other tiers of government to support asset management. These funding mechanisms include financial assistance grants and other targeted infrastructure funding programs such as the Commonwealth road black spot funding, various disaster risk reduction funding programs and disaster recovery funding that supports building back better and the development of resilient infrastructure.

It also highlights the importance of the need for dependable and mature data that is capable of supporting informed and robust planning and decision-making that reflects the fundamental and determinative interrelationship between asset management planning and financial sustainability.

The impacts from the profound socio-demographic shifts arising from the COVID-19 pandemic are also likely to have significant implications for asset and infrastructure management into the future. This is from interregional migration and population shift, changes in infrastructure demand and utilisation, skilled and affordable contractor, and the ability of councils to attract and retain skills and capacity within their workforce.

With the 2022 survey providing the opportunity for councils to provide specific rankings of issues underlying a risk, Figure 2 demonstrates the national overview of each issue underlying this risk. The leading concern by a significant number of points is the capacity to finance the assets further magnified by the significant funding required due to the supply chain issues and inflation.

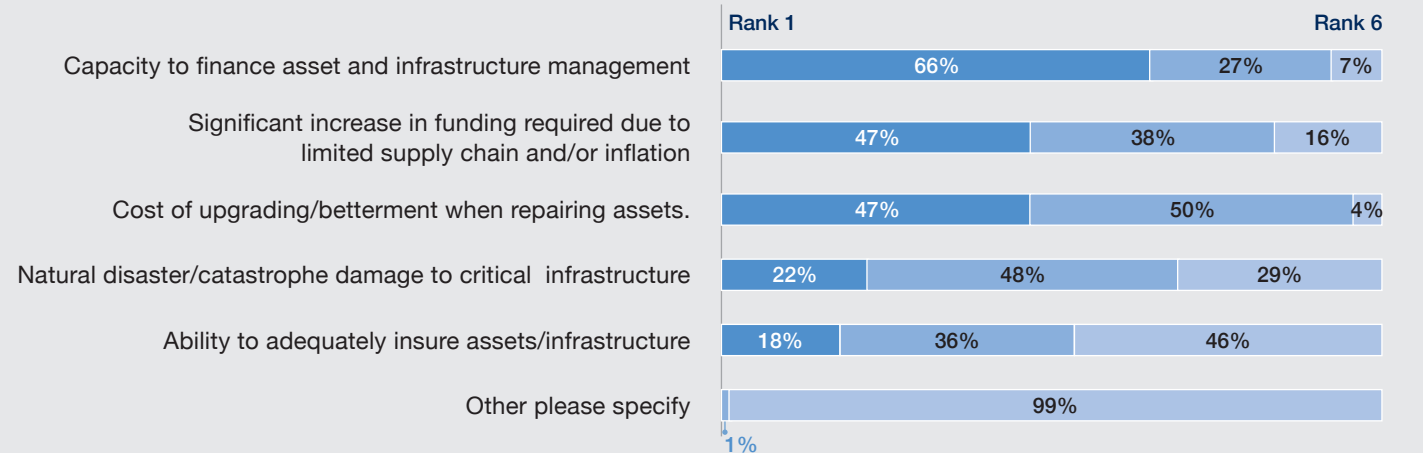


Figure 2: Management of and/or damage of property, Infrastructure and Asset risk/heat map

⁶ Australian Local Government Association, 2021 National State of the Assets Report
⁷ Source ALGA, 2021

With the events of the past three years, local governments have turned their attention to business continuity and the consideration of short, medium and long-term steps they need to take help their communities navigate uncertainty during an event. Well-crafted and implemented business continuity plans typically aim to quickly and efficiently restore normal service through the actions of staff and the executive.

Unsurprisingly, business continuity awareness has moved up two spaces in 2022 from sixth to fourth position.

The substantial devastation and effects of the 2022 floods across Australia has moved the destruction of council assets/infrastructure due to an insured peril and to the second highest issue underpinning the Business Continuity risk. Widespread global volatility impacting supply chains, labour costs and inflation, has created a perfect storm impacting asset and business interruption declared values. We have seen a surge in valuation activity from proactive councils seeking to ensure their declared values reflect the reality of replacement under current market conditions; a task which cannot be overlooked when planning for business continuity.

There is a linkage between disaster and catastrophic events and the domino effect on councils' Business Continuity plans, impacting processes which in some cases are compounded by unplanned IT outages; each being part of the interconnectivity of risks.

Respondents demonstrated an active interest in processes to respond to unplanned outage of IT / social media / telecommunications, which has become a focus for councils. IT resilience is a growing challenge for local government, and the financial impact of unplanned outages and security breaches is increasing.

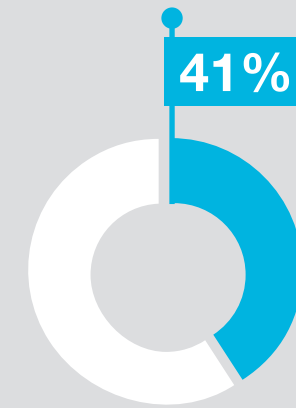
Failure to align IT security capabilities with councils' strategic goals and appetite for risk, including the integration of operational disaster recovery plans into the strategic business continuity plans may expose vulnerabilities to the continuity of services and should be a priority of local government.

Finally, councils recognise that the development of community resilience plans and processes to mitigate the impact on council services and functions need to be addressed. Councils forced to distil critical and operational choices with the executive during the pandemic escalation must now ensure business continuity plans allow for a triaged approach to the continuity of services. This needs to be delivered in an orderly manner and in a way that communicates with affected communities with compassion and transparency.

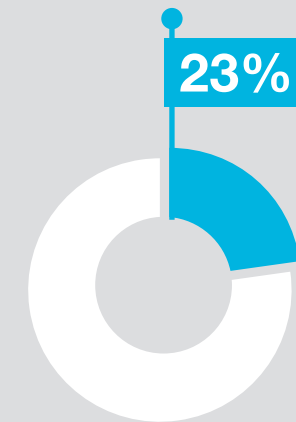


BUSINESS CONTINUITY

4



CEO's and GM's ranked the leading underlying concern for Business Continuity, the destruction of council assets / infrastructure due to natural and other disasters.



The next ranking concern within the Business Continuity Risk is the destruction of council assets/ infrastructure due to an insured peril.



Process to respond to unplanned outages of IT/social media/ telecommunications is the third concern unpinning the risk for Business Continuity.



DISASTER AND CATASTROPHE



5

It comes as no surprise the impacts from disasters and catastrophic events on councils and their communities and features highly, rounding out the top five in the 2022 survey.

In the shadow of the 2019/20 Black Summer bushfires, followed by severe weather wrought by a return to La Nina conditions in 2020/21 across most of Australia, councils were already stretched and exhausted by the continued impacts of the COVID-19 pandemic. Councils were then having to brace for a second conservative La Nina in 2021/22.

Yet it was an earthquake that sounded the bell of things to come when it centred in Mansfield, Victoria, in September 2021. Tremors were felt in Tasmania and into New South s magnitude 5.9 event caused damage to a number of homes and commercial buildings.

South Australia and Victoria were first hit by widespread severe weather, with strong winds, lightening and hail causing extensive and catastrophic damage to agriculture, buildings and community infrastructure in late October 2021.

The unforeseen three weather systems which combined to cause flooding across the east coast of Australia in February 2022, with the most severe flooding experienced in South East Queensland as well as Central and Northern New South Wales, brought communities under extreme stress. Flooding impacts occurred in more than 70 local government areas and

caused damage of over \$5 billion in insured losses according to the Insurance Council of Australia – the third costliest weather event in Australia’s history.

Saturated catchments and widespread flooding from ongoing rain events continued into 2023. This included the Hawkesbury-Nepean which experienced its worst flooding in nearly 50 years in July, then the Murray-Darling where unprecedented flooding in November devastated Forbes and surrounding towns in Central West NSW before impacting downstream communities in the months that followed.

Unsurprisingly, disaster hazards occupy the most attention of councils, however emergency response, event predictability, funding, community awareness and planning aspects of disaster management were identified as high concern by respondents as indicated by Figure 3.

Glenn Patterson, CEO of City of Casey Council agree councils are working to reduce climate change risks through long-term planning, ensuring this is reflected in policies and planning controls.

“It is important that government responses are informed by accurate data and science, and that collaboration occurs between all levels of government, community and industry to effectively address mitigation and adaption”.

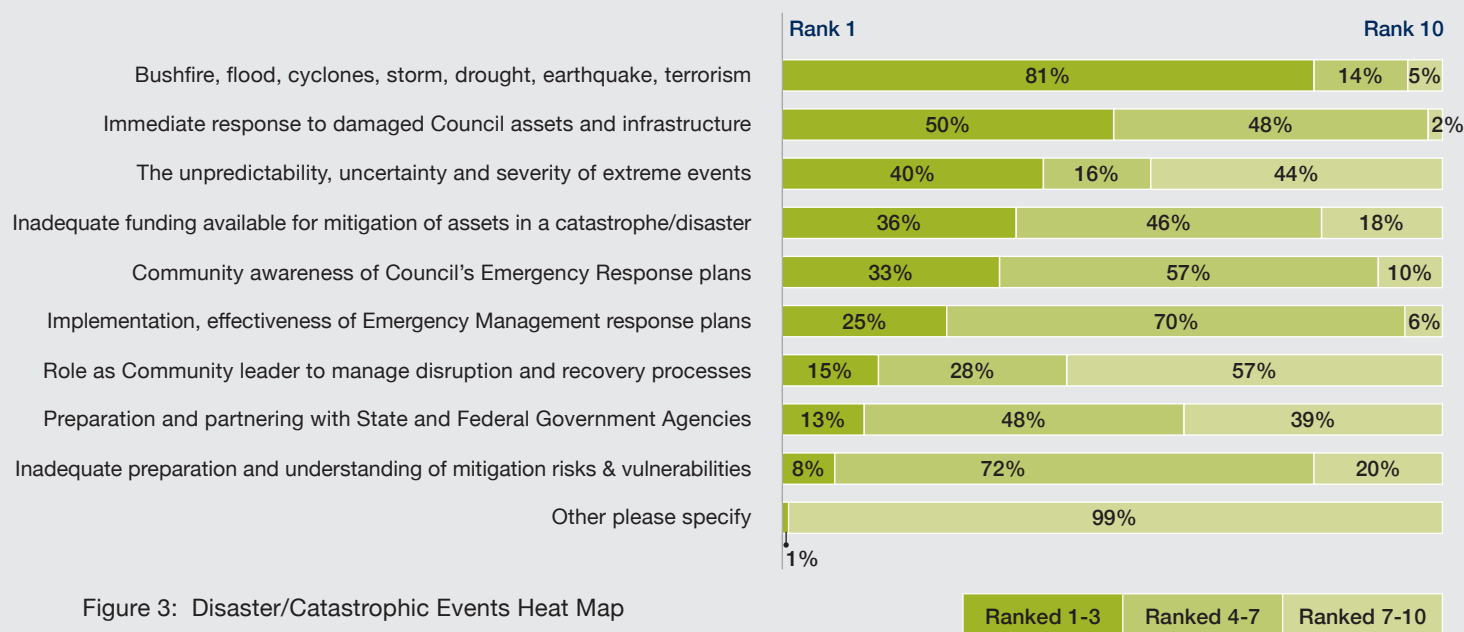


Figure 3: Disaster/Catastrophic Events Heat Map

The impact of the events of 2022 and 2023 are well seen in how they connect with other risks. The roll on effect from these events is seen throughout this report from the financial implications, to the impact on technology, as well as business continuity programmes unable to survive reoccurring events.

Since 2020, it is estimated that there have been over \$12 billion in claims. These events come at a significant additional economic impact, with Treasury estimating a \$5billion cost on the national economy due to the 2022 disasters through crop losses, mining and construction delays, supply chain disruption and increased inflationary pressure. The events of 2021/22 are a stark reminder of how Councils must continue to focus on understanding vulnerabilities, improving systems, and building community and organisational capacity to reduce risk and strengthen resilience.

“The hidden cost of a catastrophic event, which is hard to factor, is the emotional cost” stated Troy Green of Tweed City Council. “Staff are working ridiculous hours to manage operations of Council as well as responding to the immediate effects of a disaster. The community doesn’t have the lens over all aspects of what is involved in a disaster and eventually, Council employees are at the end of multiple complaints each day. The emotional impact on Council staff during such events can impact morale. One of the hidden effects of a disaster is in trying to obtain additional skilled human resources to assist those agencies undertaking recovery deal with the additional demands placed upon them over an extended period of recovery.”

The results of the survey, as shown in figure 4 demonstrate that the immediate response to manage assets and infrastructure during a disaster and catastrophic event. What all councils across remote, rural, regional, metropolitan and city are equally concerned about is if their emergency management response plans can be effectively implemented and is the community aware of the response plans are.

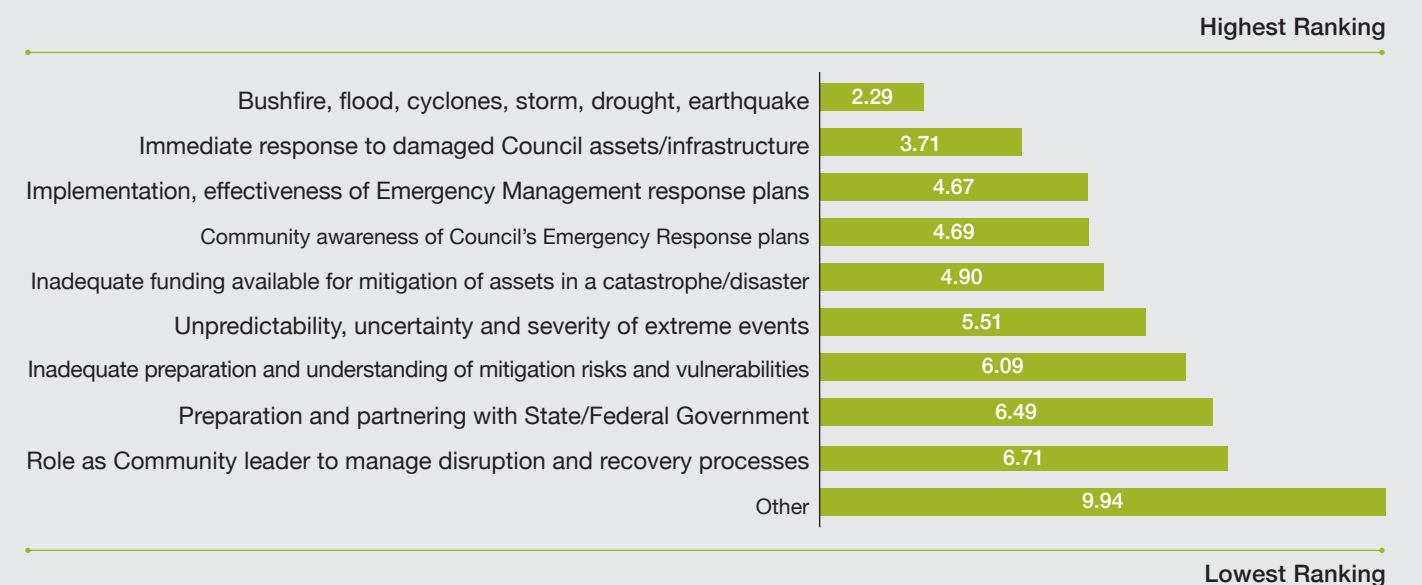


Figure 4: Disaster/Catastrophic Event Average Ranking of underlying concerns 1 to 10



The unpredictability of disasters coupled with La Nina and the Negative Indian Ocean Dipole in the second half of 2022 have contributed considerably to the impact of catastrophic events. This layered over the events of 2019 through 2022 has applied pressures to all councils with more significant impacts on those communities who have had the effects of multiple events over this time period.

The annual Bureau of Meteorology and CSIRO State of the Climate Report⁹ draws on the most recent national and international climate research, encompassing observations, analyses and future projections. The report notes associated changes in weather and climate extremes—such as extreme heat, heavy rainfall and coastal inundation, fire weather and drought—have a large impact on the health and wellbeing of our communities and ecosystems.

These changes are happening at an increased pace with the past decade seeing record-breaking extremes leading to natural disasters; as well as having a growing impact on the lives and livelihoods of all Australians. These, combined with chronic, periodic and local stressors, will compound local communities' vulnerability to such disasters.

The 2022 risk survey results show all states/territories, and in NSW in particular, have been effected substantially by four major flood events in 2022. The time required to identify, investigate and assess the damage and then work through what needs to be rebuilt is considerable. In some cases, a number of communities have not had the time to work through this process before another major flood event occurred.

The effort to ensure that infrastructure and the community reduce their vulnerability is important as this will contribute to better preparedness in the future.

As noted above, though this example represents primarily NSW, all states and territories are concerned that the ability to procure insurance is not achievable or the cost of doing so is unsustainable to pay. This is very much at the forefront of councils affected by multiple events across a short period of time.

The basic premise is that natural hazards only lead to disasters if they intersect with a community that is exposed, un-prepared and vulnerable. Disasters are increasingly exceeding the capacity and capability of councils and local communities to respond to and recover, thus making it necessary to invest more and smarter in disaster risk mitigation.

Mitigating the risk of disaster requires identifying and understanding the direct and indirect cause

and effect of vulnerability. Exploring how local community values influence 'vulnerability' needs to be properly understood and calculated. Local government decisions effecting a community's ability to build resilience are the result of multiple, cumulative, non-linear processes by which local community values, tensions and trade-offs are able to be effectively managed.

Respondents continued to identify assessment of predicted climate change impacts on their community functions and activities as the key issue they face within this risk. The need to develop strategic policies informed by credible knowledge of climate change impacts and supported by robust risk reduction is the reason this risk in sixth position.

The 2022 State of the Climate Report has projected that Australia will continue to be affected by increasing temperatures with more heat extremes, a decrease of cool seasons and dangerous fire seasons.

In accord with the National Disaster Resilience Strategy, the Australian Government is looking at a broader policy and framework engaging with local government in order to support the development of skills and expertise to build resilience in the community.

The creation of a vulnerability profile of local government, as the community leader, will assist in understanding and identifying how it can influence the capacity of a local community to prepare for, absorb and recover from a natural hazard event while building resilience.

The transition of resilience from a descriptive concept to a series of accepted values, able to be integrated into a strategic plan, attracts challenges while providing opportunities.

Achieving resilience will not be an outcome. Resilience is an ongoing course that will mature and evolve as the risk environment of local government continues to be influenced by varying factors.

Governments are encouraged to commit to specific funding programs to enable local governments to invest in and undertake essential mitigation programs. These will help reduce the exposure of communities to the impacts of natural disasters enabling the ongoing maturity of community resilience.

A resilient community is better prepared for, more able to respond, and able to recover from a natural disaster event. Increasing community resilience will create a more attractive environment for the insurance industry to maintain affordable and appropriate insurance and/or risk solution products.

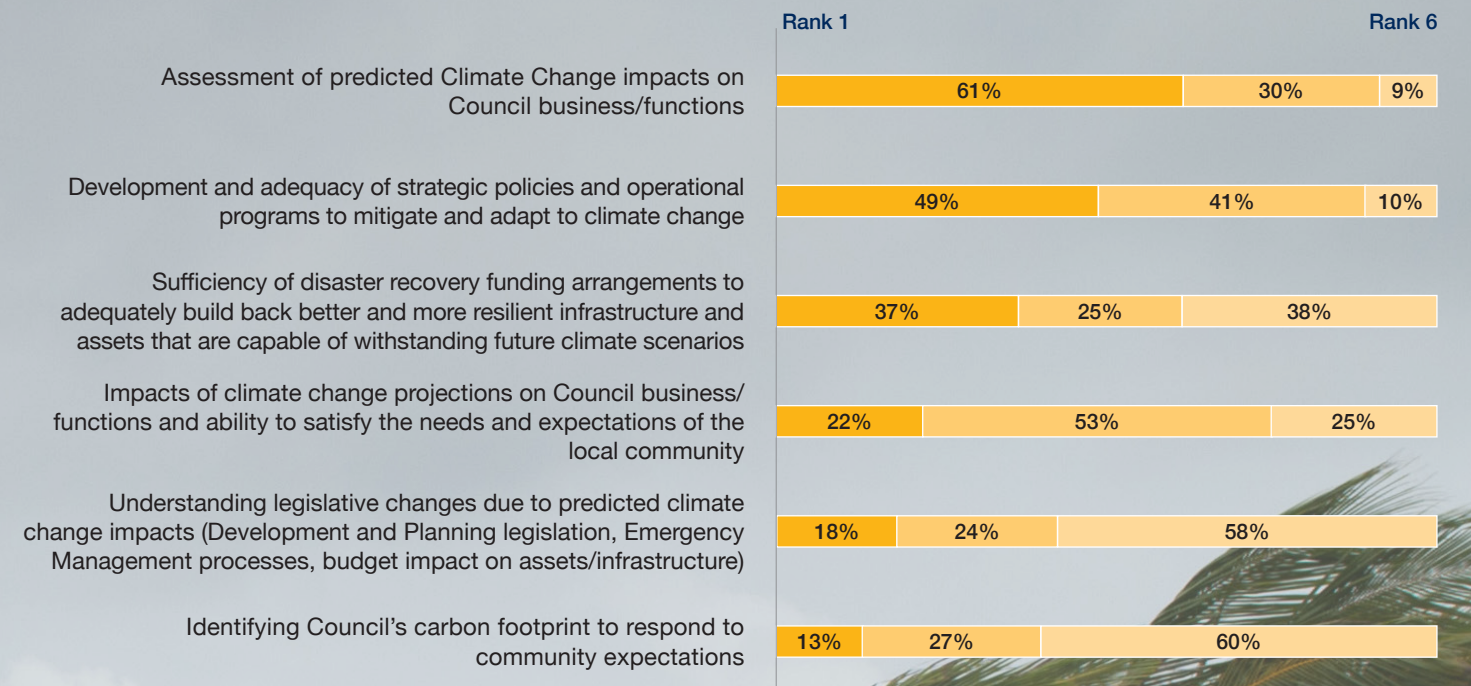


Figure 5: Climate change and/or adaption risk heat map

6



CLIMATE
CHANGE/ADAPTION

⁹ Bureau of Meteorology and CSIRO State of the Climate Report



It is important that government responses are informed by accurate data and science, and that collaboration occurs between all levels of government, community and industry to effectively address mitigation and adaption.

GLENN PATTERSON
CEO, City of Casey Council



STATUTORY & REGULATORY REQUIREMENTS

7



Local governments across Australia are operating in an environment of increased statutory and regulatory requirements. The driving forces behind this trend include ongoing cost shifting mechanisms from other tiers of government, increasing governance and accountability requirements, which have come about as a result of integrity and accountability related legislative reform.

Respondents have indicated that this area is significantly influencing their organisation's risk profile as evidenced by the movement in risk ranking in this year's report from ninth in 2021 to sixth in 2022.

Local governments may see these risks manifest in a number of ways including:

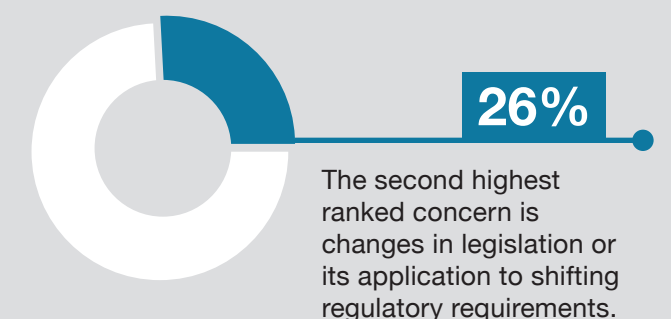
- An increase in litigation and claims activity as a result of non-compliance activity (including governance and accountability matters against councillors and officers), which in turn connects to the risk of Ineffective Governance.
- Financial sustainability implications as a result of local governments needing to provide additional services and functions to communities that were previously the responsibility of other tiers of government. This connection with the leading risk, places further pressure on organisations already stressed from a resourcing perspective.

Increased exposure to additional fines and penalties for non-compliance and the additional cost associated with compliance management.

- Increased risk shifting from state/territory government agencies to local government, including complexity around Planning and Development regulations and obligations, and
- Increased community complaints and adverse audit findings resulting in risk to reputational damage.

The key challenges identified in managing and controlling this risk include access to appropriately qualified staff which links with the seventh ranked risk – Human Resources. This is further exacerbated by the sheer pace of legislative change and cost shifting mechanism from other tiers of government as they too grapple with financial sustainability pressures.

There is a continuing focus by individuals, stakeholders, interest groups and regulators on corporate governance structures and decision-making processes across all levels of government. This is particularly in the areas of environmental, social and governance matters, which we anticipate will continue to drive the ever changing and expanding legislative agenda facing local governments in the coming years.





We need to shift from traditional and reactive sourcing to a strategic and proactive approach.

GLENN PATTERSON
CEO, City of Casey Council

8

HUMAN
RESOURCE
MANAGEMENT



The Australian Local Government Association (ALGA) reported in September 2022 that “around nine in ten Australian councils are now experiencing skill shortages – an increase of 30% in four years and two thirds of councils have had local projects impacted or delayed as a result”.¹⁰

The Local Government employment profile is complex, with low unemployment rates creating a skills shortage across many key roles with this challenge further compounded for regionally located Councils. The complexity of council service delivery and the challenge of meeting regulatory obligations and community expectations makes it very difficult for councils to appropriately resource their organisations.

The age profile of Local Government is also significantly geared towards the more senior age brackets, creating workplace efficiency and transition to retirement challenges. The clear distinction in roles and responsibilities of ‘outside’ and ‘inside’ workers presents hurdles such as how to overcome a transition for workers to a more labour intensive role.

Governments in general were not set up for a work from home arrangement prior to the pandemic and being able to sustain this and manage performance is proving difficult.

Councils have started to develop Employee Value Propositions (EVPs) to source, attract, recruit and retain staff.

“Local Government needs to identify what can be offered through benefits, remuneration and career development”, states Glenn Patterson, CEO of Casey City Council. “We need to shift from traditional and reactive sourcing to a strategic and proactive approach”.

Mr Patterson continues that “to retain talented staff, local government must uplift culture and implement future focussed, new ways of working. We need a

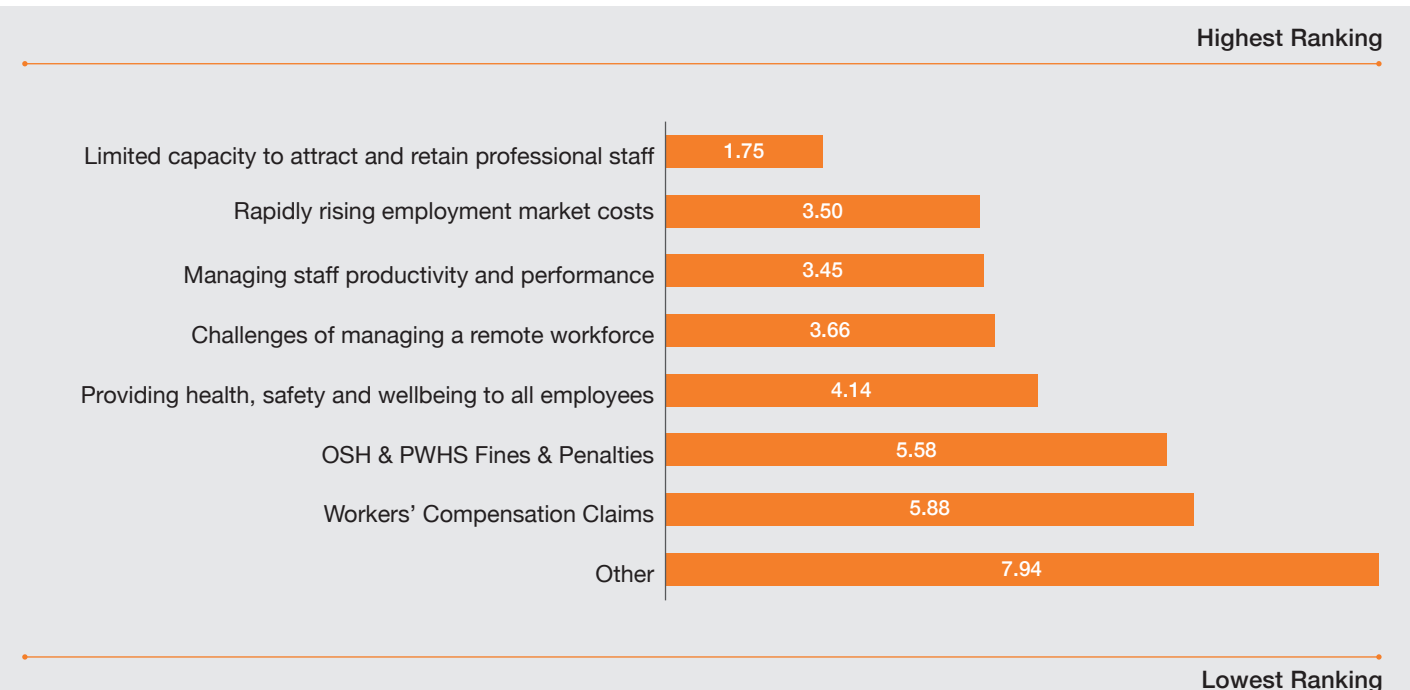


Figure 6: Human Resources Average Ranking of underlying concerns 1 to 8

Consistent feedback in the 2022 Risk Survey showed local government in general needs to consider how it can compete in the low-unemployment environment and better position local government as an industry of choice for new graduates. This can also be said of the challenge to attract the best leadership talent to help overcome succession challenges for senior positions.

There is minimal differences in rankings between meeting market costs and being able to manage employee productivity which is supported by the fact councils face challenges when it comes to managing a remote workforce.

robust, employee centred approach that actively engages employees throughout their work lifecycle”.

With minimal ability to influence operating revenues through rate increases and being primarily reliant on federal assistance and grants, councils are financially constrained in being able to effectively resource and attract the best talent to the organisation.

Further compounded by the heavy media scrutiny around Council spending and the public access to Executive remuneration.

¹⁰ ALGA, News & Events



9

WASTE MANAGEMENT

The 2018 National Waste Report noted that “Australia generates more waste than the average Western economy”.¹¹ Local Government manages approximately 26% of Australia’s waste via self-management or specialised services and kerbside, dispatched and recycled material.

Over 9.7 million tonnes of waste is collected and managed nationally each year costing around \$3.5 billion.

In 2020, an Action Plan was put in place for better waste management practices. An 80% recovery rate target across all waste streams by 2030. Further requirements within this report include halving organic waste to landfill and phasing out unnecessary plastics by 2025. These targets put pressure on Councils with minimal financial support to achieve this.

Concerns for financial capacity to meet these requirements is reflected in the results of the 2022 Public Sector Risk Survey. Waste Management moved up two places in the rankings from 2021. The cost and ability to effectively manage waste was ranked as the number one reason for this concern. This accounted for 68% of Councils ranking this as number one.

Councils are under increasing pressure to repurpose, build, fund and educate residents around the changing requirements. Waste management is a high-risk activity with significant losses sustained in the industry, every year. The most obvious risk posed is environmental contamination.

Clean up expenses, fines and damages, increased costs, are all further potential outcomes. Overarching these operational hazards is the significant reputational risk to mitigate environmental harm whilst innovating to create a circular economy, in a climate of increased environmental sensitivity.

The increased focus on reducing waste to landfill creates opportunities but also opens the door to new risks such as:

- Maintenance run-off of older facilities and monitoring of legacy landfill which will create a burden to balance sheets as well as regulatory changes.
- Increased costs to manage
- Stockpiling because of insufficient, suitable infrastructure and limited demand in the domestic market.

Waste facilities have evolved from past models of landfill-only operations to sophisticated waste management solutions including refuse recovery, recycling, and energy generation.

This change in pace around waste management creates opportunities in the waste-2-energy space, potentially opening the door to new revenue streams for local government. Whilst these opportunities appear attractive, a move into this space will change the profile of local government waste management activities and the implications of this are something that Councils ought to thoroughly consider when planning for and evaluating these opportunities.

There are a number of local government projects underway across Australia directly engaged in W2E, investigating W2E solutions and developing solutions to cater for the waste generated from these plants.



Figure 7: Waste Management Average Ranking of underlying concerns 1 to 5

¹¹ Parliament of Australia, Waste Management & Recycling, Budget Review 2020-21 Index



10

INEFFECTIVE GOVERNMENT

Governance within a local government encompasses all the structures, systems and processes by which it is controlled and operated, and the organisation as whole, and its people, are held to account. Effective governance processes and practices (including enterprise risk management) within local governments are critical to their success and meeting the needs of the communities they serve.

While ineffective governance remains in 10th position, failure to initially set up and maintain appropriate governance structures, and then appropriately apply and monitor them is the key feature in the continued increase of claims in Public and Professional Liability, Council and Officers, and Fidelity/Crime covers.

The largest issue council executives identified this year relating to ineffective governance is the inadequacy of financial controls. While previously ranked at the bottom of the underlying governance sub issues, respondents ranked this as the leading issue for ineffective governance. The driving forces behind this movement may be linked to the increasing budgetary pressures in a challenging operating

environment of inflationary pressures, supply chain issues, and workplace planning difficulties.

Challenges from managing elected member and or employee behaviour/misconduct and challenges with managing Council meetings, efficiently and effectively were ranked closely being the adequacy of financial controls. The driving forces behind these sub groups emerging as priorities for a large number of councils likely include the integrity related legislative reform agenda across the country.

In the procurement of contractors, facilities and events, councils need to ensure there is planning incorporating justification for engagement as well as the approach taken in how they go to the market to deliver services and events. The process must ensure sourcing is carried out transparently and the process is managed effectively. This can be particularly challenging in the current environment with pressures on supply chains and the labour market. Failing to undertake appropriate due diligence and get these critical processes right exposes councils to public liability claims, financial loss, and significant reputational damage.



Figure 8: Ineffective Government Concern Rankings



11

REPUTATION

With the ranking of risks this year, councils have considered a number of issues around what effects local government. Reputation has been ranked 11th out of the 12 risks.

As the closest level of government to the community, councils are best in touch with their community needs and understand the best ways to ensure those needs are met.

Councils are responsible for providing a wide range of key services but, also have a legislative responsibility to provide governance and leadership for their local community through advocacy, sound decision making and action.

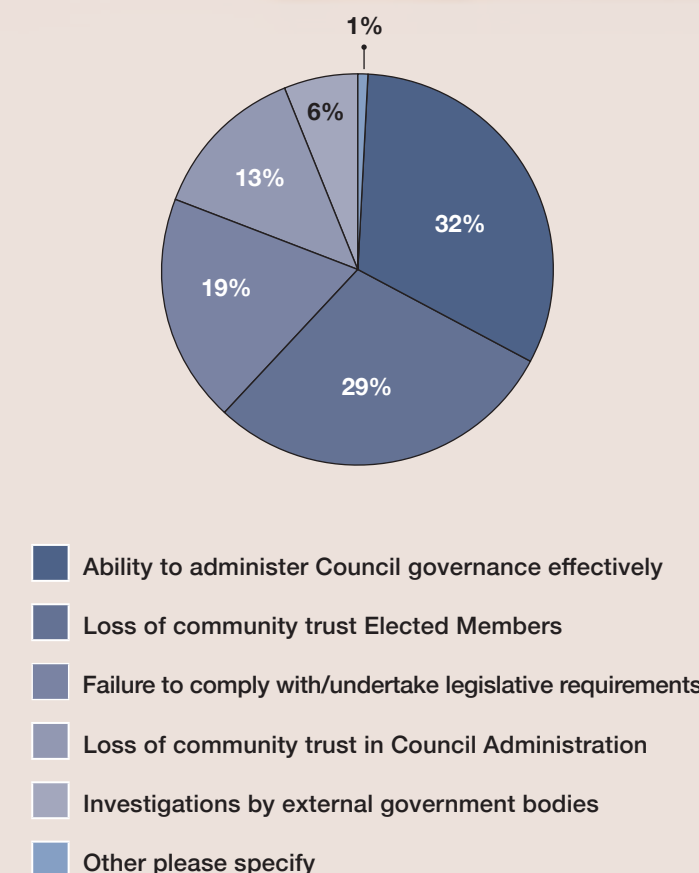
Councils are accountable to their local communities in the performance of their functions, the exercise of powers and the use of resources. Should there be any real or perceived failure in performance of these duties, there could be significant consequences to a council's reputation.

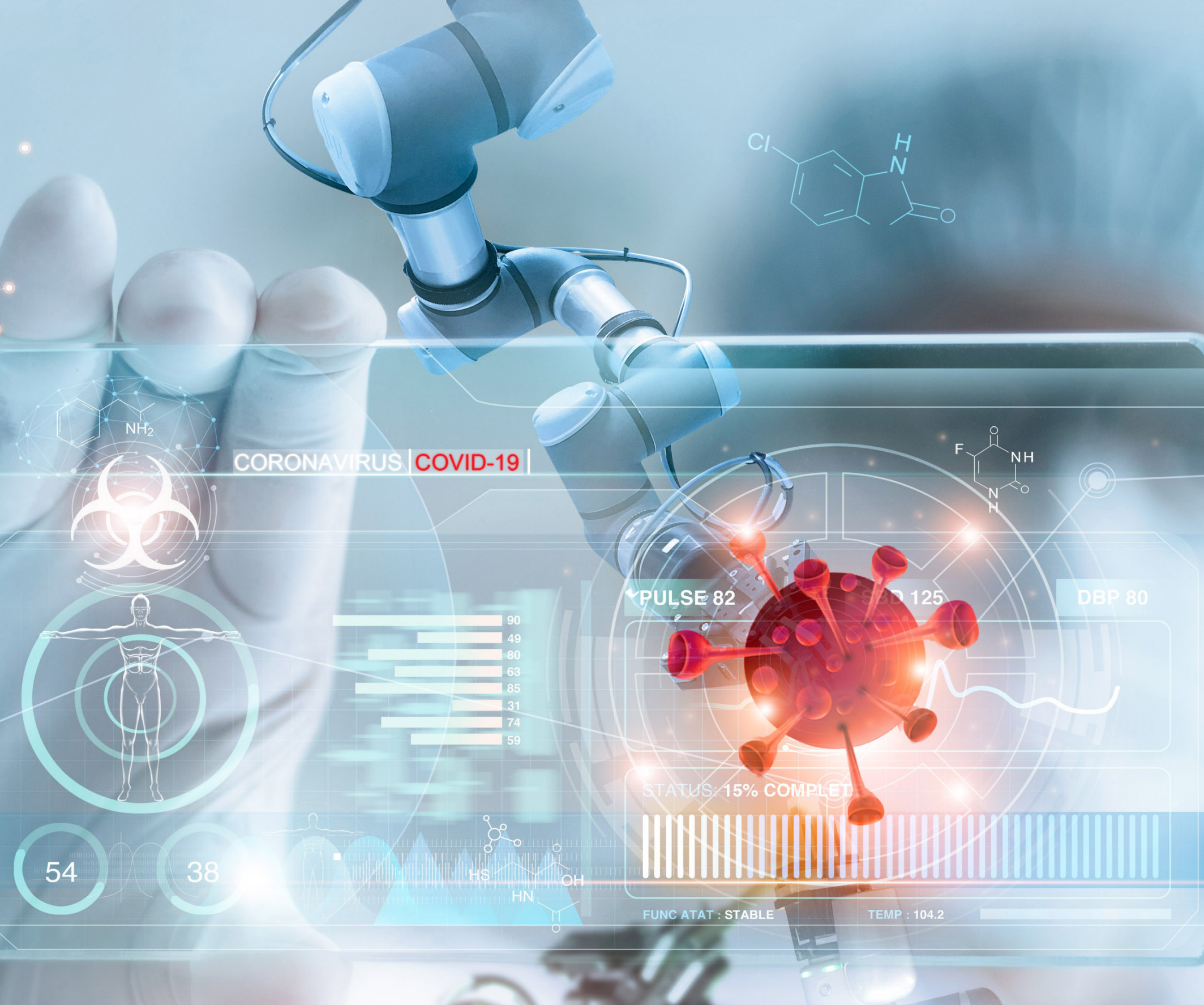
In 2022, councils have been under increased pressure to continue to provide essential services while supporting their local communities through a number of events that have occurred across 2022.

While councils have been seen in the community, advocating for their needs, council resources have been tested as well as stretched which in some circumstances has led to frustration in the community and potential impacts to a Councils reputation.

Local Government identified their biggest concern in the reputation category is their ability to administer council governance effectively. However, this was closely followed by the impact of failing to comply with or undertake legislative requirements as these change. While related to the shifting of responsibilities, changes of legislation and the inability to engage and maintain the right people to manage this through. This leads to the loss of community trust in elected members and administrative staff.

This year, with the ability for respondents to specifically rank their reasoning behind each risk, there has been movement in the specific number one ranked risks. The ability to administer council governance effectively moved to number one with the loss of confidence in elected members moving to number 2. It should be noted these remained extremely close.





12 PANDEMIC



The COVID-19 outbreak tested previous thinking about planning and responding to an evolving pandemic. It continued to impact organisations and communities in 2022. Though shut downs have eased, the third and fourth pandemic waves in conjunction with the first serious flu season in two years continued to see governments and business have employees work from home when needed. This reduced the capacity of local businesses being able to bounce back and thrive with people returning to work in metropolitan and regional cities.

Public sector pandemic planning had two key underlying assumptions:

- Phased approach to linear developing pandemic conditions in accordance with relevant health authorities declared phases.
- Focus on continuity of critical and core service deliverables associated with 40-60% workforce reduction and supply chain interruptions due to people being sick or caring for the sick.

The COVID-19 pandemic challenged all previous pandemic planning assumptions because there was:

- Rapid non-linear escalation;
- Global, national and state based border closure;
- Lock downs at various stages across the country;
- Mass vaccination responses to reduce transmission and protect vulnerable populations, along with;
- Technology advancements that facilitated communications (including misleading information);
- Work from home capabilities.

While the COVID-19 pandemic continues to have impacts, the lifting of border closures, lock downs and supply chain delays eased during 2022. The lessons learned over the past three years have changed pandemic planning and response for local government in many ways, not only addressing the risk but also realising opportunities. Today local government is adapting to:

- The return of visitors and workers to capital and major cities following a mass exodus during the pandemic.
- Some regional areas are experiencing increased community population, changed demographics and associated changes to service expectations.
- Different ways and evolving expectations for community services, events and engagement.
- The critical role local government plays in facilitating and delivering key health messages to their local communities.

There have been high levels of demonstrated resilience at a whole of community and local government level with the proven ability to deliver continuity of critical and core services. This 'new normal' prepares us for future pandemic threats with recent monitoring of Foot and Mouth outbreak in Indonesia and reported Monkey Pox cases in Australia.

The 2022 JLT Risk Survey was carried out through September and October of 2022. Due to the continued events in October, November and December, the report has moved for release in March 2023. 197 CEOs and GMs participated in the questionnaire representing rural/remote, regional, metropolitan and city councils from across Australia.

Reshaping the ranking of Risk

The survey provides the view of CEOs and General Managers of local government and their perception of 12 key risks.

This year, we provided the opportunity for respondents to be more specific in ranking their risks. In the first instance, each risk was ranked in order of concern.



THE KEY RISK INDICATOR REPORT METHODOLOGY

The following explains the approach off the example of rankings.

Risk Category:

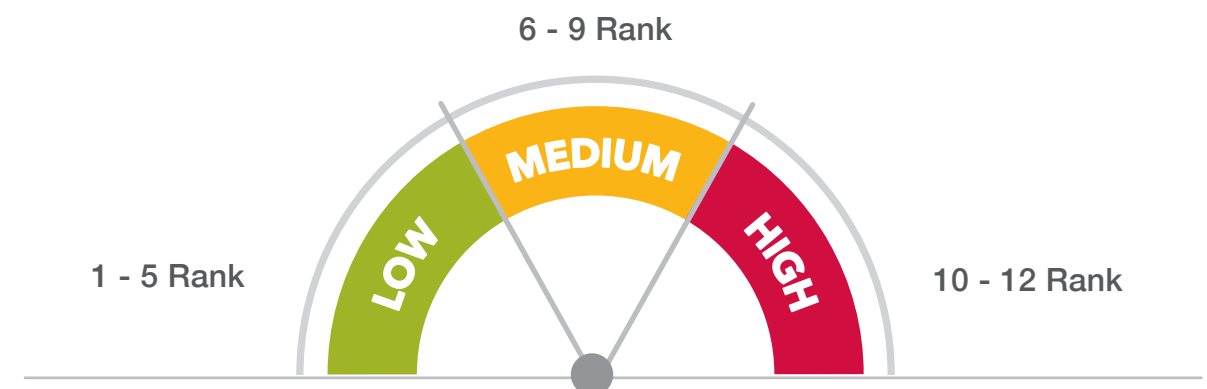
Business continuity planning and Community disruption

Risk Category	1	2	3	4	5	6
Destruction of Council assets/infrastructure due to natural and other disasters (bushfire, flood, extreme storms, terrorism, etc.)	40.61%	22.34%	14.21%	13.20%	9.14%	0.51%
Destruction of Council assets/infrastructure due to an insured peril (fire, storm, vandalism)	22.84%	31.47%	18.27%	15.74%	11.68%	0.00%
Process to respond to unplanned outages of IT/social media/telecommunications	16.24%	15.23%	14.21%	19.29%	34.01%	1.02%
Development of community resilience plans and processes to mitigate the impact of a loss of/reduced Council services and functions	11.17%	10.66%	38.07%	20.81%	19.29%	0.00%
Process to ensure clear, consistent communication with affected community/ies integrity of current business continuity plan and process	8.63%	19.29%	15.23%	30.96%	25.89%	0.00%
Other please specify	0.51%	1.02%	0.00%	0.00%	0.00%	98.48%

If we take business continuity risk category as an example, the highlighted column above sums to 100% and shows a breakup of all the risks ranked at number 1.

This sample shows 40.61 % of responders had Destruction of Council assets/infrastructure due to natural and other disasters (bushfire, flood, extreme storms, terrorism, etc.) ranked 1.

To identify high, medium and low risks we have bundled the rankings as follows.

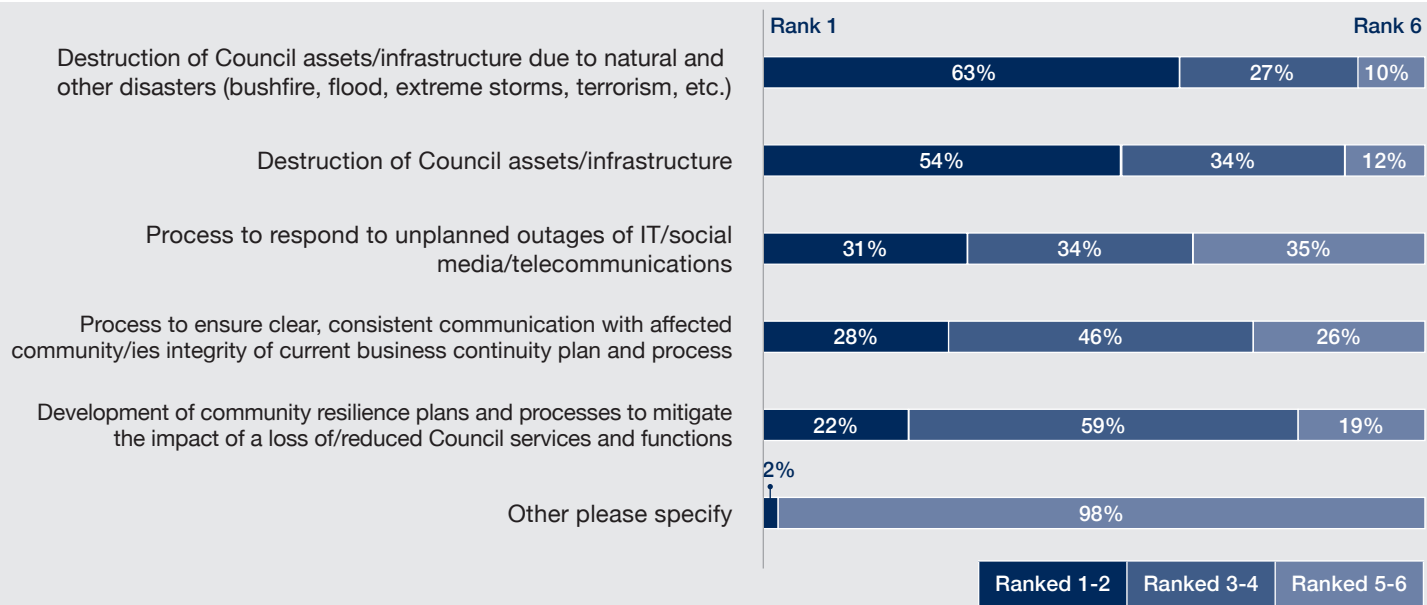


While the above key is true for the overall risk picture (1 to 12) there are tables showcasing the findings for the individual risk as a comparable risk map. In this instance, respondents were provided the opportunity to rank the underlying concerns within each risk.

The following example looks at Business Continuity Planning and Community Disruption. The underlying issue Destruction of Council assets/infrastructure due to natural and other disasters (bushfire, flood, extreme storms, terrorism, etc.) has an average rank of 2.29

Destruction of Council assets/infrastructure due to an insured peril (fire, storm, vandalism) has an average rank of 2.62

This means when we average out all the rankings the responders placed these risks for business continuity (high, med, low) they averaged out to be fairly close, this is an example where people had differing opinions on the rank 1 risk for this category.



Survey Respondents

197 local government CEOs and General Managers participated in the 2022 JLT Public Sector Risk Survey. Participants were from each state and territory – these also represented metropolitan, city, regional, regional city and rural/remote communities.

Participants ranked 14 risks from highest to lowest, drilling down further into the reasons behind each risk. We have presented the results of the top 12.

State representation nationally

The 2022 Risk Survey had 197 respondents representing 37% of council CEO/GM's. Of this 37% the representation of State responses is in figure 9.

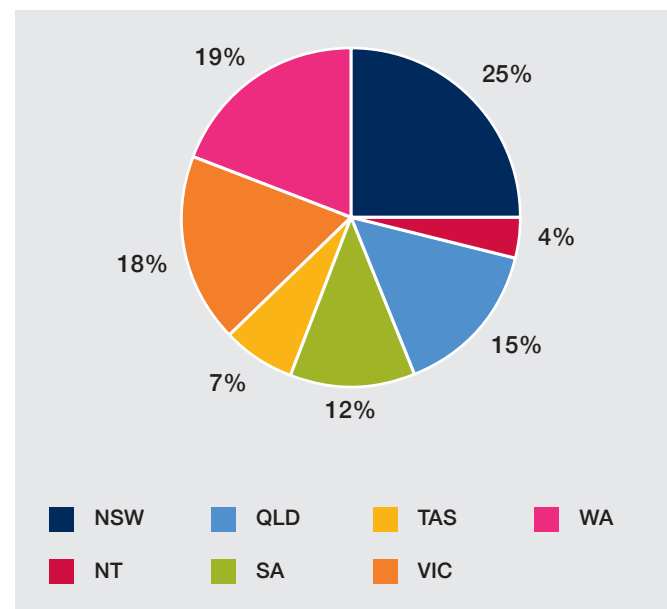


Figure 9: State respondent representation

Regions

The representations within these charts consider small populations in remote Australia through to densely populated cities. Remoteness is based on the level of access to services. The following provides the breakdown of councils by region.

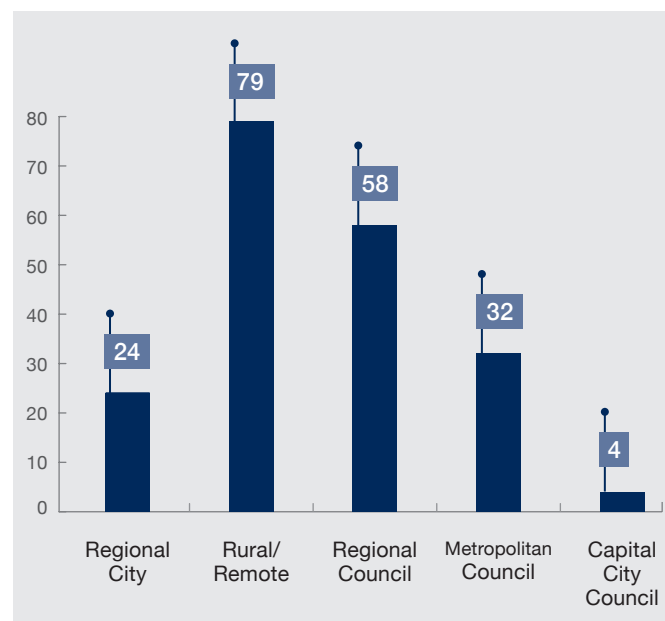


Figure 10: Regional Representation

HIGHEST RISKS BY STATE

Table 1 shows the impact of varying events and how different States are identifying issues that effect them. For example, Financial Sustainability doesn't rank first across the board. In some cases Cyber Security is ranked first. In most states, the same risks are ranked somewhere in the top five.

Top 5 Risks compered by state

Nationally



Financial Sustainability



Cyber Security



Asset & Infrastructure



Business Continuity



Disaster or Catastrophe

Victoria



Cyber Security



Financial Sustainability



Climate Change



Asset & Infrastructure



Business Continuity

Northern Territory



Financial Sustainability



Asset & Infrastructure



Business Continuity



Regulatory/Statutory Requirement



Human Resources

South Australia



Cyber Security



Financial Sustainability



Asset & Infrastructure



Climate Change



Regulatory/Statutory Requirement

Tasmania



Cyber Security



Financial Sustainability



Disaster or Catastrophe



Climate Change



Business Continuity

Western Australia



Financial Sustainability



Cyber Security



Human Resources



Asset & Infrastructure



Business Continuity

Queensland



Financial Sustainability



Cyber Security



Disaster or Catastrophe



Business Continuity



Asset & Infrastructure

NSW



Financial Sustainability



Cyber Security



Disaster or Catastrophe



Business Continuity



Asset & Infrastructure

GLOSSARY

Financial Sustainability		Financial Sustainability
Cyber Security		Cyber security / data breach / vulnerable IT infrastructure
Assets & Infrastructure		Management of and/or damage to ageing, property, assets infrastructure and assets
Business continuity planning		Business continuity planning and community disruption
Disaster / Catastrophic Events		Disaster or Catastrophic Events
Climate Change/ Adaptation		Climate Change and/or Adaptation
Human Resources		Implementation and maintenance of efficient, effective HR & WHS management systems
Statutory/ Regulatory requirements		Increased Statutory&/or Regulatory requirements
Waste Management		Waste Management Environment Management
Ineffective governance		Ineffective governance
Reputation		Reputation risks
Pandemic		Impact from infectious diseases/pandemic
Claims		Negligence causing civil liability claims against Council
Terrorism		Terrorism

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