



2018 Risk Report

A focus on Australian Local Government

Executive summary

The 2018 Local Government Risk Report for Australian Local Government, Aon's 4th national risk survey of the sector with close to 100 risk management executives responding, our report delivers benchmarking updates and valuable insights about effective risk mitigation and transfer. It has been a tumultuous year with a number of councils finding themselves in the full glare of the media's spotlight – this report makes clear the human impact on Local Government risk, but reveals how more than half of all councils are failing to execute simple practices to rein in that risk.¹

This report also includes Aon's Local Government insurance market overview with a focus on property, general liability and professional indemnity.

Finance first

Not surprisingly the unrelenting challenge to do more with less ensured that the financial challenges of infrastructure, financial sustainability and stability lead the list of risks for local government. It's been that way since Aon started this benchmarking series in 2015.

Human impact

Health and safety, cyber, reputation and human resources concerns have all leapt higher as councils count the risk and cost of human impact. Many councils however are missing the chance to take simple steps to reduce human risks – it's an opportunity to grasp.

Mother Nature

After a relatively benign 2017 nationally, weather dropped way down the list of risks. Soon after Aon's survey concluded however, Mother Nature threw her curveballs: Darwin faced Cyclone Marcus; Tathra, NSW and Victoria's South West were devastated by bushfires; North Queensland was flooded. A reminder not to get too comfortable.

Opportunity knocks

Councils are clear about how they rank risks – but when it comes to managing them not all councils are investing in the best-practice strategies and processes that promise greatest protection.

Forward thinking councils engage in effective data-backed risk profiling, gap analysis and loss limiting. They develop strategies and implement processes to enhance employee engagement and protect the wellbeing of workers, and test emergency management and business continuity plans. They measure and manage their risk appetite and test the market for the most effective coverage. Avoiding overbuying frees financial resources to employ into council programs and projects for the benefit of the community. Their good practice is a beacon for the rest of the sector.

Significant swing

There are signs that the status quo is under threat as councils seek out better insurance and risk management arrangements. Two years ago fewer than one in ten councils leveraged independent brokers and commercial insurance – today one in four is testing the market. Getting coverage right is critical – 86 per cent of councils made claims in the last 12 months.

¹ The statistics in this Risk Report are based on the results of a survey (2018 Risk Survey: Australian Local Government) conducted online in February 2018. Responses are from 116 risk management executives from at least 90 councils across NSW, QLD, TAS, VIC & WA.

Greatest risks

The Local Government sector is a complex, multi-faceted and critical part of the national fabric at an economic, community and social level.

This is no one-size-fits-all sector; tackling issues from strategic planning through to issuing statutory planning permits, building control, child care and immunization programs, sport and recreation facilities, managing resident concerns, as well as the usual suspects of rates, roads, rubbish, footpaths, parks and gardens councils are diverse entities impacting multiple pieces of legislation.

Today, in the Amazon-era people have high expectations around instant gratification, access, transparency of decision making and effective use of financial resources. Ratepayer demands continue to rise, their willingness to pay higher rates does not. In any case councils are pressured to rein in or cap rate rises. Federal and State grants are scarce, frozen or both and instances of State Government cost shifting continue to impact the Local Government sector

Local Government also faces fierce public scrutiny as the reputations of Auburn, Melbourne, Geelong and Perth councils can attest.

Aon's 2018 Risk Report shows how funding squeezes and rate capping, particularly in NSW and Victoria, twinned with rising ratepayer expectations ensured infrastructure and financial sustainability and stability remain at the top of the list of risks facing councils.

There's been some recalibration of other risks, with particularly strong rises in health and safety, cyber, reputation and human resources.

Councils felt far less concerned about weather threats. In a classic demonstration of karma, as the final surveys were collected Australia endured a round of cyclones, bushfires and floods. Mother Nature won't be ignored.

Figure 1: Leading risks for 2018

	2018	2017	Change
1	Infrastructure	Financial Sustainability & Stability	1
2	Financial sustainability & stability	Infrastructure	-1
3	Health & safety	Asset protection	2
4	Cyber	Weather	4
5	Reputation	Health & safety	2
6	Human resources	Funding	4
7	Asset protection	Reputation	-4
8	Funding	Cyber	-2
9	Planning decisions	Environmental	new
10	Weather	Human resources	-6

Source: 2018 Risk Survey Australian Local Government

Key concerns

Financial

- Rate rises are rare and limited. Pressure to limit or cap rate increases is evident nation-wide.
- The indexation of Financial Assistance Grants (FAGs) has just been restored in 2017/2018. Having been frozen since 2014/2015 and failing to keep pace with CPI, the freezing of indexation on FAGs has had significant impact for rural and regional areas.
- Wages costs can chew through as much as 70 per cent of revenue for larger councils.
- Staff salaries negotiated through enterprise bargaining are rising faster than revenues in a capped and constrained era. While council revenues in some States are increasing by only 2 per cent, wages bills are rising by as much as 3.5 per cent. Councils feel they are going backward.
- Ratepayers expect better services, more services – but they aren't so keen on more rates to pay for them. The 'do more with less' mantra sounds loudly in the sector. The resulting pressure on staff adds to stress, impacts wellbeing and affects employee engagement. It's a vicious cycle.
- Councils grapple with a widening asset renewal gap as they juggle the desire for new infrastructure with the rising cost of maintenance of existing assets. Quickly becoming a political issue at council election time.

Effective risk management creates value by mitigating risks associated with each council's unique risk profile. Independent brokers help assess risks, test the commercial insurance market and craft coverage to ensure a fit-for-purpose insurance program that delivers a dividend by protecting council's finances from adverse events while avoiding costly over-insurance.

Human

- **Health and Safety** – Documented work health and safety policies are ubiquitous but smaller regional and rural councils are challenged to keep pace, to audit and update due to a lack of financial and human resources. They miss out on the compounding effect of best practice Work Health & Safety; safer workplaces mean fewer accidents and reduced claims, leading to lower premiums and money saved enhancing financial sustainability.
- **Cyber** – Cyber risk only entered the top ten last year – it jumped four places this year. Council databases are a trove of tempting private information. In the year to June the Australian Signals Directorate responded to 671 serious cyber security incidents involving some level of Government¹. Any serious breach of private information whether through hacking or by accident will soon need to be reported and remediated by councils to comply with data breach notification laws soon to be introduced for the local government sector. Councils holding the private data of Europeans – temporary workers for example – are also bound by the EU's General Data Protection Regulation to report breaches (within 72 hours) and remediate. Cyber coverage has improved as councils recognize they need more than a network patch – but also must prepare for remediation, stakeholder communications, possible fines and legal action that may arise.
- **Reputation** – Geelong, Auburn, Perth and Melbourne are high-profile examples of council reputations under fire. Local government faces the challenge of managing and moderating the behaviour and decision making, not just of employees, but also elected members. Social media makes councils porous with information leaks a daily risk. Councils & Officers insurance premiums rise as insurers get jittery.
- **Human Resources** – Attracting the right people combined with employee retention to resource council services and keep workplace skills current is critical but costly – as is managing the talent pipeline and ensuring a healthy flow of people in and out. Employee engagement remains a burning issue with local government staff measured as less engaged than their private sector peers. With often older demographic councils also navigating five age cohorts as Generation Z enters the workforce to rub shoulders with millennials, Gen X, GenY and Baby Boomers. Each has a different way of working as well as career and work-life balance expectations

¹ https://www.acsc.gov.au/publications/ACSC_Threat_Report_2017.pdf

Claims landscape

Aon's survey of local councils reveals 86 per cent of respondents made claims in the last 12 months. In Aon's experience those councils that proactively manage risks and employ best-practice claims management are viewed more favourably by insurers. Moreover they achieve financial benefit when not impacted by other councils with poor risk management practices in an insurance pool scenario.

Figure 2: Respondent claims in the last 12 months

	Last year	Answer	%
1	2	Trips and falls	23.94%
2	1	Storm damage to council assets	21.13%
3	3	Tree root damage	14.08%
4	4	Council road damage to private vehicles	13.38%
5	6	Flood damage to council assets	12.68%
6	5	Vandalism to council assets	11.27%
7	7	Statutory planning errors and omissions	6.34%
8	9	Other (please specify)	6.34%
9	8	Business interruption	1.41%

Source: 2018 Risk Survey Australian Local Government

Claims – Best practice

- Report all incidents and claims as soon as possible.
- Involve insurance broker to help manage claim.
- Consider using a claims advocate to maximise settlement.
- Rely on seasoned assessors to assist with mitigating the loss and expedite repairs.
- Document everything, ensure detailed notes are kept on file.
- Communication is key – keep the channels open – including to complainants.

Changing council behavior

Councils expect insurance premiums to rise this year – but still only one in four of them test the market.

Over the last three years however there has been a marked swing in the number of respondents placing their insurance outside of a mutual scheme as councils continue to seek value for money insurance alternatives reflecting the need to deliver on financial sustainability and stability for their rate payers and communities..

In 2016 just 9 per cent of the market was not signed up to a mutual scheme, last year that rose to 11 per cent. This year heralds a significant shift with 25 per cent of the market now using or with an intent to use independent brokers, signaling the value they believe can be extracted by a move to commercial insurance.

2016	2017	2018
9%	11%	25%

Fast Fact

Mornington Peninsula Shire saved over \$700,000 in its 2015/2016 Annual Budget when it employed an independent insurance broker and risk management advisor.

Figure 3: Respondents views on value for money by solution

	Strongly disagree				Strongly agree	
Value for money (Mutual scheme)						
2018	9	13	18	27	33	100
2017	5	9	18	35	33	100
Value for money (Commercial insurance)						
2018	3	7	40	34	16	100
2017	5	18	34	30	13	100
Insurance sector does all it can (Complex risk)						
2018	4	15	26	39	16	100
2017	6	18	25	34	17	100

Source: 2018 Risk Survey Australian Local Government

Still, only 23 per cent tender for insurance and risk management. For councils that signals a huge opportunity to test the market through tendering. There is mounting evidence that commercial insurance delivers value for money, fit for purpose coverage reflecting each council's unique risk profile, enhanced services and bespoke local government policy wordings.

Fast Fact

Only about 40 per cent of council risks are insurable.

Figure 4: Do you expect insurance premiums to rise?

#	Question	Increase	Decrease
1	Public liability insurance	88.31%	11.69%
2	General liability insurance	78.87%	21.13%
3	Professional indemnity insurance	80.82%	19.18%
4	Property insurance	89.47%	10.53%

Risk profiling

Without a clear understanding of your risks – how can you know how to protect yourself properly? Yet one in five councils has no process for risk profiling.

Councils are severely underweight in risk profiling – only around 12 per cent use an independent broker to assess the risks to which their council is exposed. Most (51 per cent) rely on their appointed insurance broker. An astonishing 20 per cent have no process at all and 12 per cent manage it internally.

Figure 5: Councils' approach to risk profiling

Risk profiling	Appointed insurance broker	51.32%
Risk profiling	Independent insurance broker	11.84%
Internally		11.84%
No process		19.74%
Other		5.26%

The rule of thumb is that the larger the council the more likely they will have conducted a formal risk assessment to achieve a comprehensive understanding of their risks within their unique risk profile. Regional and rural councils which are strapped for financial and human resources may let regular risk profiling slide.

Tailoring insurance to a council's individual needs and reviewing for gaps means they pay insurance premiums for what they need and don't pay for what they don't. Identifying and addressing gaps is an important element of ongoing risk mitigation and needs regular review given the pace of change facing the sector.

Independent review of the sector suggests significant coverage gaps exist for some councils, while some are massively over insured, particularly in public liability where insufficient analysis has proved costly in terms of premiums paid.

Fast Fact

With \$1B of assets on its books, effective risk profiling and market testing helped Torres Strait Island Regional Council save money and become more financially sustainable.

Aon's Risk and Resilience analysis ranks local government as "basic" scoring 2 out of a possible 5. It ranks in the bottom three of all sectors analysed.

Councils' resources crunch is often blamed for lack of risk focus – but there are quick wins to be had.

Aon's free self-assessment tool² measures and benchmarks enterprise risk – providing a platform for improvement. Armed with the insights councils can build a business case for improved risk profiling and track improvement over time. If you don't measure it – you won't know when it's better.

First steps

1. Regularly assess the threat landscape
2. Understand your resilience gaps and build your business case for priorities
3. Apply continuous learning from incidents and simulations
4. Engage your stakeholders

² <http://www.aon.com/rmi/>

Fast Fact

Victoria's Auditor General identified aggregated understatement of council assets reached \$727 million last year.

Supporting statistics

Statistical modelling helps assess the true risk profile of a council, determining worst case scenarios and identifying appropriate levels of insurance cover. Over-insure – you pay too much; underinsure – you expose council to risk disaster.

In many cases independent modelling using the Monte Carlo technique has identified significant levels of over-insurance in the sector, in some cases hundreds of millions of dollars of over-insurance. Councils are paying high premiums for coverage they simply don't need, particularly in public liability.

Every council has a unique risk profile; a local government with bushfire exposure may need significant public liability coverage, but would an inner suburban council with little bushfire or flood exposure need \$500 million coverage when trips and falls and tree roots are their biggest insurance challenge?

Councils which achieve a comprehensive understanding of their insurable risk profile, assess their risk appetite and then test the market for coverage with appropriate loss limits and after deductibles ensure the best results and avoid over buying. By then tailoring their insurance programs councils ensure their insurance programs are fit for purpose in respect to the limits of cover and the deductibles they retain to meet their unique risk profile.

Best practice in insurance and risk management procurement would then suggest:

- Regularly review council's risk register including its insurable risks
- Work with a broker to perform statistical analysis on worst case scenarios
- Conduct risk profiling gap analysis
- Compare council's risk register against its existing insurance cover to identify gaps
- If commercially insured, gaps can be instantly addressed

Good governance

Governance and risk are twinned; governance with a pure compliance focus injects risk by lowering the opportunity for innovation, whereas lax governance can increase risk.

Simply being compliant is not a hallmark of good governance. Councils need to carefully manage their risk appetite to allow for innovation, while investing in their council's program and project initiatives for sustained community and social impact and short, medium and long term benefit.

Best practice in good governance in order to assist Councils mitigate their risks and provide assurance to rate payers that Council's strategic direction, decisions and operations are providing value to those rate payers, the following should be considered:

- Councils should ensure their Governance Framework meets both State Government and community expectations
- A clear definition of the respective roles of the council, its committees and of executive management should be clearly articulated and documented
- Council's through the establishment of key committees, such as the Audit & Risk Committee for example, must have appropriate charters/terms of reference and be focused towards achievement of Council's strategic objectives as well as having their performance assessed annually
- Regularly reporting from Committees to Council is critical to ensure Committees discharge their delegated responsibilities
- Clarity is required as to the role of the Chief Executive Officer or General Manager in the administration and operation of Council including delivering the Council Plan and ensuring a compliant environment of controls, policies, procedures and practices. This will include regular reporting of the Chief Executive Officer to Council and the annual assessment of the Chief Executive Officer's performance
- Finally, supporting mechanisms must also be clarified and well-articulated to mitigate risk exposures including:
 - » Recruitment and selection processes for new employees of Council
 - » Induction programs for Councillors and new employees
 - » Ongoing training for Councillors and employees
 - » Codes of Conduct for both Councillors and employees, which will include protocols around access Councillors have to employees of Council
 - » Defined processes for developing, documenting, approving and reviewing Council policies and procedures must be in place and clearly articulated
 - » An integrated risk management framework that focuses on Council's strategic and operational risks must be implemented in line with ISO 31000:2009 Risk Management Principles and Guidelines and annually reviewed
 - » Sound IT governance practices should be in place including a 3 year IT Strategic Plan
 - » Either an outsourced or in-house internal audit function should be in place to ensure Council's risk management, internal controls and policies and procedures are operating effectively

Cyber risk profiling

Assessing cyber risk is a moveable feast. As organisational boundaries extend in response to employee expectations regarding flexible work practices and remote access, patrolling the perimeter is no longer sufficient protection. Firewalls and passwords remain essential – but they are not foolproof. Nor is the potential for accidental breach by employees or contractors. Like the rest of the country councils need to understand when, not if, they will suffer a cyber breach.

A mismanaged data breach can wreck a council's reputation making it hard to rebuild trust with the community.

Telstra's 2017 Cyber Security Report revealed that the rate of cybercrime has doubled in the past 12 months, with almost 60 per cent of organisations surveyed detecting a security incident on at least a monthly basis.

The advent of mandated data breach notification in February for companies, soon to be followed by State based legislation for councils, has heightened awareness of the issue with stiff penalties for failure to comply. Europe's GDPR may also have council implications.

Aon's cyber risk diagnostic tool³ allows councils to determine their exposure and craft risk management and governance strategies and organize appropriate cyber insurance cover. Effective protection must extend beyond meeting the basic costs of patching network loopholes and address remediation, stakeholder communications, possible fines and the costs of any legal action.

³ <http://www.aon.com/risk-services/cyber-diagnostic-tool.jsp>

Business continuity and emergency management

Survey respondents rank health and safety third in this year’s risk list – yet only three out of five have tested their emergency management plan in the last 12 months. Apart from possible risk exposures this creates Local Government Act compliance concerns.

Emergency management plans need to be tested at least annually. Business continuity plans likewise. At present too many councils only know if their plans work when they have to deploy them. By then it is too late.

Councils also need to stay mindful of the linkage between the two plans; emergency management is likely to demand the attention of a significant staff cohort – that may trigger the business continuity plan to keep council services operational during an emergency within the municipality.

Testing plans regularly can deliver massive upside in terms of reduced risk to health and safety, and signals to employees and the community that this is a council that is well prepared. This is particularly relevant as councils are now experiencing “lone wolf attacks” in the community on top of the more traditional emergencies we see such as floods, storms and bushfires.

Aon’s survey reveals that most – but not all - councils have both an emergency management plan and a business continuity plan. Few are regularly tested.

Four out of five councils have a documented business continuity plan and one in six had to invoke that plan in the last year. Fewer than half have tested them in the last 12 months.

Best practice demands at least one test a year. According to the Australian National Audit Office’s 2014 review of business continuity plans in the public sector; “The number and frequency of exercises is dependent on the needs, size and complexity of the entity but ideally every member of a response team should participate in at least one exercise per year.”

The testing situation is almost exactly the same for emergency management plans – 87 per cent of councils have one, one in six has had to use it in the last year – but only 58 per cent have ever tested their plans ahead of time.

Definitions

Emergency Management Plan: plan of action for the efficient delivery and coordination of services, agencies and personnel to provide rapid response to an emergency.

Business Continuity Plan: Identify all risks to critical functions and document how personnel can be protected and services such as childcare, refuse collection, means-on-wheels be maintained in all emergency situations (e.g. flood and bushfire).

Figure 6: Business continuity plan

Has a plan	80.77%
Used it in the last year	16.67%
Tested in the last year	46.15%

Source: 2018 Risk Survey Australian Local Government

Figure 7: Emergency management plan

Has a plan	87.18%
Used it in the last year	16.67%
Tested in the last year	57.69%

While there is necessarily some overlap between an emergency management plan and a business continuity plan – they need independent focus, both from a risk mitigation and Local Government Act compliance perspective.

Regular review is essential, and testing is critical to ensure that the necessary skills and operational bandwidth exist to ensure a plan is effective come crunch time.

Independent assessment helps determine the effectiveness and maturity of plans, identify any gaps in terms of what councils are legislatively obliged to handle, and provide well-crafted solutions and toolkits to improve capability and capacity.

Position paper

The linchpin role that councils perform during emergencies is reinforced by the recently released position paper from the Victorian Government focused on Victorian councils, which forms a useful case in point.

The position paper notes that councils must appoint a municipal emergency resource officer and identify supporting personnel. While resource hungry, the report notes that there is often a sense of heightened employee engagement among this cohort.

The paper also provides a useful framework identifying the critical issues that need to be considered or included in emergency response plans and business continuity strategies.

https://www.localgovernment.vic.gov.au/__data/assets/pdf_file/0020/91532/Councils-and-emergencies-position-paper-December-2017.pdf

Cyber focus

The high likelihood of computer system breaches and data loss means that business continuity plans need to include a significant cyber protection component.

The information technology group, critical business units, communications staff, risk and insurance advisers must be included to craft a continuity plan that allows council to function if normal access to facilities, systems and services is interrupted for any reason.

Schedule regular cyber health checks. Educate staff about the risks of phishing and social engineering. Determine the impact of attacks on Internet of Things “smart” infrastructure, and identify workarounds in case of systems downtime.

Work health and safety

Work Health and Safety (WHS) climbed two rungs in the 2018 risk ladder into third position.

Not surprising - it's an issue that can have huge human and reputational impact. Council workers often live in the community they serve – any dereliction of WHS or wellbeing responsibilities will echo loudly locally, injecting reputational risk and reducing the council's ability to attract new talent.

It is an issue taken very seriously by councils.

There are however still gaps – 18 per cent of councils have not audited their WHS and Safety Risk management policies, procedures and practices in the last two to three years.

Proper, regular reviews are essential to safer workplaces, reducing accidents and minimising claims. Risk assessment, selection and implementation of suitable WHS controls also play a critical role in ensuring community safety.

Figure 8: Our council has rigorous WHS and Safety Risk Management practices in places audited 2-3 years

#	Answer	%
1	Strongly disagree	8.97%
2	Somewhat disagree	8.97%
3	Neither agree nor disagree	7.69%
4	Somewhat agree	38.46%
5	Strongly agree	35.90%
	TOTAL	100%

Source: 2018 Risk Survey Australian Local Government

Best practice

Council WHS is a complex area and requires collaboration between all relevant stakeholders. Councils need to stay current and regularly review their risk management and WHS policies and procedures. Every manager, every employee, every contractor needs to view their working day through a WHS lens.

Organizational culture can have a profound impact on the WHS landscape. In the post #metoo era councils need well telegraphed policies and controls for dealing with sexual harassment issues and to ensure workplace bullying is stamped out.

Councils need;

- Stakeholder engagement with an holistic approach to safety and wellbeing,
- Communications and consultation regarding WHS, extending to mental health in the workplace,
- Ongoing training and regular assessment (both internal and independent)
- Shared WHS accountability with clear governance and oversight
- To forge a link between WHS policy and risk management strategy

Larger councils may have dedicated WHS resources including inspections and regular audits. Smaller councils may struggle with resourcing – but all local government is bound by the same legislative requirement with regard to WHS and must demonstrate they take all steps that are “reasonably practicable”.

Compliance failures can lead to the issuing of improvement notices, prohibition notices, infringement notice, or seizure notice with the overarching risk that a case may escalate to prosecution bringing its own flurry of reputational risk.

Demographic dance

An ageing workforce injects additional concerns for councils. While councils benefit to some degree from the stability in their ranks, there are risks.

Older employees engaged in physically intensive roles, such as age and disability care and rubbish collection may become more prone to injury. Workers generally (particularly those regularly out in the field) may not engage with workplace communication techniques such as email – are WHS updates being read?

The harmonised WHS legislation across most states and territories (excepting Victoria and Western Australia), has extended an employer's duty of care to include workers and others, including but not limited to members of the public, contractors and volunteers.

Smart approach

- A culture of safety and wellbeing needs to percolate across the organisation, it can't be demanded from on high
- Ask employees what behaviours they are seeing in the workplace
- Present scenarios and ask how they would respond
- Explore technology solutions to drive behavioural change
- Avoid reward schemes – expensive and unreliable way to change behaviours
- Structure and process steer behavior
- Leadership from the top, model the right behaviours
- Strong WHS cultures alleviate the need for draconian compliance engines
- Have a “near miss” reporting regime to report and action risks before an injury does occur

Employee engagement

The relentless need to do more with less is having an impact on local government employees. Staff feel pressured to perform and undervalued, which risks lowering employee engagement and motivation as staff feel simply overwhelmed. This is coupled with the exponential growth and need for additional services being experienced by many interface councils on the edge of major Australian cities.

But many councils don't know the impact on staff as only 28 per cent of councils perform an annual employee engagement audit – and 18 per cent never have.

Without measuring employee engagement councils are flying blind when they try to enhance that. They also seem to be unaware of the problem. This is particularly relevant given the potential impact employee engagement has on service delivery and council's community satisfaction scores related to those services.

Figure 9: Our council is effective at utilising engagement results to inform our councils strategic plans

#	Answer	%	Count
1	Strongly disagree	3.13%	2
2	Somewhat disagree	4.69%	3
3	Neither agree nor disagree	18.75%	12
4	Somewhat agree	54.69%	35
5	Strongly agree	18.75%	12
TOTAL		100%	64

Source: 2018 Risk Survey Australian Local Government

Human Resources issues jumped four notches in this year's risk report – but most Councils simply don't have the understanding of their workforce that they need to optimize their services, operations and mitigate their risk.

Councils also need to negotiate wage expectations and a general inability to match salaries on offer in the private sector. This can be a particular challenge for specific skills such as statutory and strategic planners, building surveyors and engineers.

If the best talent is carved out to the private sector, will the remaining employees be engaged and effective?

Building employee engagement and fostering strong and impactful cultures can have huge impact on risk and reputation, the quality of service delivery and also significantly impact productivity.

Attracting and retaining staff continues to be an issue. Forced council mergers in some States has been a difficult HR issue to navigate.

In Aon's experience up to three fifths of a council's budget is typically spent on salaries; getting a good return on that investment is a rising priority.

Engaged workers:

- Are more likely to adhere to operational policies and safety procedures, reducing risk to themselves, co-workers and the community.
- Boost overall productivity and are more willing to contribute discretionary effort enhancing overall performance
- Act as brand advocates in the broader community
- Appreciate a clear career path but are increasingly pay focussed.

But benchmark surveys indicate that only 55 per cent of Australian council workers are fully engaged and prepared to deliver discretionary effort. The benchmark engagement in the top quartile of private enterprise is a much higher 69 per cent.

While Local Government workers are often low churn - 49 per cent say they rarely think of leaving, 48 per cent are motivated to contribute – there is evidence of presenteeism without much in the way of discretionary effort.

An often older demographic particularly in rural and regional councils can lead to traditional work practices being entrenched with less scope for innovation.

Councils meanwhile often fail to fully celebrate employees’ enthusiasm to work in the area where they live and make a contribution to the local community.

Figure 10: How regularly does your council assess employee engagement?

#	Answer	%
1	Every year	28.21%
2	Every 2 years	32.05%
3	Every 3+ years	21.79%
4	Never	17.95%
TOTAL		100%

Too comfortable

Relatively low staff churn, particularly in regional and rural councils, is stifling diversity, limiting innovation and stunting succession pipelines. Long term employees who have risen through the ranks from technical roles often lack the soft skills needed for successful modern management. Brusque styles don’t resonate well with younger workers, creating the potential for workplace conflict.

The lack of diversity also means councils are talking to themselves – not a representative collection of the broader community they serve. Diversity is well recognized as delivering organisations higher levels of innovation and performance.

How engaged is your workforce?

- Conduct regular work experience survey.
- Take a pulse and compare against peers or other industry sectors using validated external benchmarking.
- Identify weak spots, develop strategies to address.
- Track engagement improvement with regular surveys every year or six months.
- Strong leadership and front-line people management is the only way to shift the dial on culture and engagement.
- Energise people with purpose and vision that is serving the community

Insurance market update

Local Government Insurance Market Overview

Key implications for local government

- The insurance market continues to be driven by a surplus of capacity, which is fuelling competition and leading to the development of new and tailored products, bespoke policy wordings specific for the sector and greater budget certainty.
- Across almost every product line, there continues to be a strong appetite from insurers for local government business.
- Councils that have moved to the open market have seen a new norm in their pricing expectations, with capacity and competition remaining strong.

Capital remains buoyant

Over the past 12 months, the insurance market continues to witness an oversupply of capital at a global and local level, despite recent natural catastrophes which did disrupt the market marginally in late 2017.

The availability of capital has been further consolidated through the recent move by pension funds to purchase insurance and reinsurance companies (rather than just investing in them). This demonstrates a long-term investment strategy by these funds, and should continue to strengthen future underwriting capacity.

Strong desire for local government business

In Aon's experience, insurers have a very strong appetite for underwriting local government risk across almost every product line. Councils are generally viewed as well managed businesses that operate within a highly regulated framework.

Many insurers also understand the value of partnering with councils and the opportunity it provides to create a positive association for their brand within the community. For example, the social impact of assisting councils to reduce administrative costs and redirect savings to community programs and projects.

Premiums set to stabilise

The strong supply of capital and the competitive pressures brought about by new entrants seeking to build market share, has led rates to reach almost record lows.

Although insurers would like to increase their revenues and profitability, the capacity and competition available makes it more likely for rates to remain stable, or at most, increase marginally. The pricing available today in a contested market environment likely represents a 'new norm', not what could be perceived as a short term, "correcting" insurance market. This is acknowledged by insurers who now turn to internal processes to reduce costs in differing ways to drive better margin, rather than turning to the more traditional premium levers to pass on cost.

Innovation and new products

The new capital into the market in recent times is also driving new and inventive ideas, which to some extent are challenging the ideas of older capital. This is creating an interesting dynamic around the need to generate new products.

Innovations that are relevant to councils include Cyber policies (including one being developed by Aon that provides post-breach response assistance), and tailored cover for 'lone wolf' attacks, which are changing the terrorism landscape and increasing councils' risk exposures.

Figure 11: Rate movements 2016 vs 2017

	Actual Rate Movement 2016 vs 2017 Public Sector Australia	Actual Rate Movement 2016 vs 2017 All Sectors Australia
Property	6.59%	7.57%
Public Liability General Liability	0.36%	- 0.22%

Source: Aon Riskview Pricing Insights Report

Property

Overview

- Pressure on rates has increased marginally from previous years however deductibles remain historically low.
- Local government continues to be amongst the most attractive sectors for insurers.
- Looking at retention options can lower premiums and reduce the total cost of risk transfer.

There has been minor change in the local government property market since last year, with councils generally enjoying low rates and deductibles, and pricing fluctuations remaining marginal and predominately claims driven.

Local government property assets are very attractive to insurers due to their low maximum loss potential and limited business interruption exposures. Council business is also favoured due to its geographical diversity, which spreads insurers’ risk exposures.

Balancing deductibles and premiums

The cost of attritional loss activity (that is, making small but frequent claims against a policy), is an issue for some councils. This can arise when low deductible levels lead to a large number of claims being transferred to the insurance market, which then results in the council paying the insurer to manage those claims.

Councils that have control of their own insurance programs within the open insurance market are able to better manage their optimal risk transfer point and lower the total cost of risk, especially in light of the market corrections currently being witnessed across the Property sector.

General liability

Overview

- In general, the market remains stable although rate reductions are decreasing.
- More scrutiny is being given to bush fire liability, sexual abuse and cyber risk.
- Effective risk management will become increasingly important.

With an abundance of capacity, general liability remains a buyer's market for the foreseeable future, although the size of rate reductions is decreasing.

There is evidence of some sector-specific hardening, with particular scrutiny to bush fire liability and sexual abuse cover for example, which may impact some councils.

Cyber risk is also being closely scrutinised, with trends pointing to more specialised cyber coverage for effective risk transfer.

Risk management now more important

Generally, councils that are able to demonstrate effective and proven risk management plans and procedures will benefit as more insurers compete to win their business. This is the case for councils of all sizes and of particular benefit to those that have moved to the open insurance market, where they have choice and control over their insurance program placement.

Professional Indemnity

Overview

- Capacity remains but widespread premium reductions are ending.
- Town planners, valuers, quantity surveyors and engineers may be impacted.
- As the market undergoes change, now is a good time to seek the best deal.

Over the past five years, the ongoing impacts of claims arising from the global financial crisis have seen insurers focus on coverage enhancements in an attempt to retain business and reduce rate reductions. However the broader market experienced predominately flat to modest premium reductions during 2017, and there are signs that the market has begun to bottom out.

Certain professions are now facing rate stabilisation to low upward pressure. With regard to local councils, this is having particular impact on town planners, valuers, quantity surveyors and engineers. Insurers are also reviewing their portfolio exposures and this could possibly result in minor capacity reductions.

Recent Australian claim settlements have led to a more stringent underwriting review process, tightening of rates, and a more cautious approach in general.

Looking ahead

In this environment, councils and individuals seeking or renewing coverage need to start early, focus on risk management initiatives, and succinctly demonstrate to insurers the calibre of their people, operations and risk management policies, procedures and practices in order to stand out from their peers. This is time to seek the best deal. It is also an example of why councils need to be assessed on their own unique risk profile and not have their "waters muddied" by being part of a pool.

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

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