

Factsheet: Local Government Risks

What is Local Government?

Australia has a 3-tier form of government:

Federal Government	Top tier of government in Australia formed by Federation when the six self-governing British colonies agreed to unite and establish a federalism system in 1901 called the Commonwealth of Australia. Also known as Australian Government or Commonwealth Government. Responsible for currency, defence, foreign affairs, immigration, income tax, social security, trade, etc.
State and Territory Government	In Australia there are six self-governing state governments and two territory governments. Responsible for consumer affairs, education, health, forestry, justice, main roads, policing, public transport, etc.
Local Government	Local government areas (cities, councils or shires) are established by state governments to look after the needs of a city or local community. The people's representatives who form the governing body of the local government area are generally called councillors and as a group are called a council. The head of a council is the mayor or shire president. Local government responsibilities include building regulation, drainage, land development, local road maintenance, public health, recreation facilities, rubbish collection, secondary roads, etc.

Local government is the closest level of government to the community and has a key impact on a community's quality of life. It is a complex level of government with some councils also responsible for a diverse range of services which may include airports, child care, aged care, security, water supply and sewage.

Local government is the lowest tier of government and often seen as the 'poor relation' in comparison to the other tiers. It is often referred to as 'roads, rates and rubbish'

Local government is funded through a combination of grants from other tiers of government and the collection of local revenue in the form of fees and charges for services and rates levied on property owners.

Council revenue is finite, so there can be tension between allocating resources to governance and assurance activities versus a primary focus on delivery of core council services. Big ticket cost areas such as asset and infrastructure maintenance often lack planning and funding to keep assets at a reasonable standard. Local government salaries are usually lower than other tiers of government which can make it difficult for the sector to attract and retain talent.

Local government is closest to the community it serves. Cost-effectiveness of council operations directly affects rates charged to property owners – this has a direct impact on the people in the community. Council long-term financial sustainability is a constant focus.

What are Local Government Risks?

Local government has a distinctive risk profile but sometimes does not have the level of funding required to adequately manage those risks.

At a strategic level, risks associated with delivering local government services are:

Strategic Risk	The likelihood of internal or external events affecting council ability to reach its objectives – strategic risks cover such things as assets and infrastructure, financial sustainability, governance, project and reputation risk.
Operational Risk	The likelihood internal processes, people or systems will fail in a way that disrupts council service delivery – operational risks include business disruption, cyber-attack, financial, fraud, human error and workforce risks.
Performance Risk	The likelihood internal processes, people or systems will fail in a way that affects council ability to meet obligations – performance risks include compliance, health and safety, legal and regulatory risks.

Councils are increasingly finding themselves at the front line in responding to natural disaster situations, and in addressing market failure for services such as aged care and child care.

On the 'opportunity' side of risk, councils are being drawn into leading technology initiatives such as 'smart' cities and use of embedded technology in public facilities like

community WiFi, street lighting, watering systems, etc. There is both a risk of failure to grasp these opportunities and increased cyber risk exposure flowing from adoption of new technologies.

At a more granular level, local government risks may be:

Accounting Irregularity	Accounting transactions executed incorrectly or fraudulently such as transfers from restricted reserves leading to misstatement of financial position.
Assets and Infrastructure	Asset and infrastructure degradation through inadequate attention or insufficient funding of asset maintenance and replacement.
Assurance	Oversight of council activities not properly structured to provide adequate assurance that effective controls are in place and operating as intended.
Business Continuity	ICT / operational technology or other disruption affects council service delivery.
Child Protection	Child protection not effectively in place for child care centres, infant clinics and recreation facilities leading to poor outcomes.
Civil Liability	Council may be sued for causing injury, death, property damage or financial loss to a third party.
Climate Change	Council may not adequately plan for climate change impacts.
Communication	Risks and risk treatments may not be adequately communicated to the community.
Compliance	Council may not comply with statutory or regulatory requirements leading to financial and reputation damage.
Confidentiality	Confidential data may be released accidentally or deliberately.
Conflict of Interest	Conflict of interest processes may not be fit-for-purpose or adequately managed leading to fraud and corruption.
Council Business Enterprises	Council business enterprises may not be subject to adequate oversight – examples may include aged care, child care, sewerage, waste disposal, water.
Credentialing	Academic qualifications and professional history of a member of council's professional workforce may not be properly verified.
Cyber-Attack	Cybersecurity may be inadequate to stop a successful cyber-attack disrupting or damaging operations or breaching confidentiality.
Development Applications	Development applications may be subject to fraud and corruption.
Council Facilities and Infrastructure	Council facilities may not be kept safe and put the community at risk.

Disaster	Council may be subject to: <ul style="list-style-type: none"> > Natural disaster such as bushfire, flood, storm damage, landslide, earthquake, etc. > Man-made disaster such as sewerage spill, water contamination, structural collapse, hazardous material spill, etc.
Documentation	There may be inadequate official papers or other records that provide proof of council decisions and activities.
Environmental	Council may not adequately regulate environmental hazards resulting in preventable impacts.
Financial Management	Council may not effectively manage its finances and cashflow and become unable to deliver services with available revenue.
Financial Sustainability	Council may not have a credible long-term financial plan to ensure future financial sustainability.
Fraud and Corruption	Council may be subject to fraud and corruption, especially within development and procurement activities.
Governance	Failing to establish robust processes that: <ul style="list-style-type: none"> > Identify what can and does go wrong. > Analyse the factors influencing this. > Learn lessons from adverse events. > Ensure action is taken to prevent recurrence. > Put systems in place to manage risks.
Grants and Sponsorships	Council grants and sponsorships may not be subject to adequate control and oversight leading to fraud and corruption.
Health and Safety	People may be subject to physical or mental injury because there are inadequate safety management processes.
ICT	ICT systems may not be available for a prolonged period that affects council ability to provide ongoing service delivery.
Lessons Learned	Lessons from the past may not be captured to improve future outcomes.
Operational Technology	Operational technology systems may not be available for a prolonged period that affects council ability to provide ongoing service delivery such as water, sewerage, power, etc.
Pandemic	A pandemic may affect council ability to provide services to the community.
Privacy	Privacy of individuals may be breached.

Procurement and Tenders	Procurement activities including tenders may not be subject to adequate controls and oversight leading to fraud and corruption.
Project Management	Council projects may not be adequately managed leading to failures, delays and cost over-runs – this includes construction projects, technology projects and major council initiatives. Fraud and corruption is also a project risk.
Public Health	Council regulatory role in relation to public health may not be optimum and put the community at risk.
Public Safety	Council approach to public safety may not be adequate and put the community at risk.
Regulatory	Council regulatory role may not operate to the required standard and result in council non-compliance.
Related Party Transactions	There may be undeclared related party transactions leading to fraud and corruption.
Reputation	Council reputation may be damaged by unexpected events or bad publicity.
Revenue	Revenue may not be sufficient for council to be financially sustainable.
Safe Environment	Council facilities may not be fit-for-purpose or adequately prepared for unexpected eventualities.
Terrorism	Council may be subject to a terrorism incident that affects people and infrastructure.
Training	Professional and technical workforce may not be adequately trained to safely and effectively perform their work roles.
Waste Management	Waste may not be managed responsibly in line with public health requirements and community expectations.
Workforce	Supply of professional and technical workforce may be insufficient to cope with demand given council salaries in relation to what the market is paying.
Workforce Health	Physical health of workers may not receive sufficient attention and result in compromised health outcomes.

Aspects of this table overlap, so users of this Factsheet are encouraged to use the table as a prompt rather than a template.

Useful References

JLT Public Sector Risk Reports available through local government support organisations. For example:

JLT Public Sector, 2021. *2021 Risk report*. [Online]
Available at: https://www.lgant.asn.au/wp-content/uploads/2022/04/21-1351-JLT_Risk_Report_2021_final-digital.pdf

