

Integrated Risk Management Mid-Year Update

EXECUTIVE SUMMARY

Integrated Risk Management (IRM) enhances The City of Calgary's planning and decision making and encourages proactive, rather than reactive, management of risk. It does this through: governance and oversight, integration of IRM with The City's strategic direction, established practices and processes, and review and continuous improvement. IRM contributes to the achievement of Citizen Priorities, Council Directives and Administration's Commitments by encouraging a risk aware culture that informs the development of risk response strategies, contributes to decision-making and reduces uncertainty about the achievement of results.

The Audit Committee is responsible for overseeing the process of The City's IRM system. In keeping with this role, Audit Committee receives reports from Administration twice per year on IRM. This report provides a mid-year update on The City's Principal Corporate Risks (PCRs), which are listed in Attachment 1 and further discussed in Confidential Attachment 2. The report also includes an update on the Integrated Risk Management Program (Attachment 3).

For this update, the information being presented is largely based on The City of Calgary's corporate risk review that was undertaken in 2019 April. This includes the Evidence Based Reviews of the PCRs that were developed as part of the standard process. In addition, risk information from the Administrative Leadership Team and risk owners from 2019 June, is also included. Five of the PCRs including: Capacity for Change, Financial, Growth, Infrastructure Management and Reputation Risk are discussed in detail as these risks are anticipated to be impacted by current stressors, including 2019 budget reductions. This mid-year update presents strategic, relevant and timely risk information in a new format to reflect The City's risk profile.

ADMINISTRATION RECOMMENDATION:

That the Audit Committee recommends that Council:

1. Receive this report for information; and
2. Direct that Attachment 2 remain confidential pursuant to Section 24(1) (a)&(b) of the Freedom of Information and Protection of Privacy Act until 2034 June 30.

RECOMMENDATION OF THE AUDIT COMMITTEE, DATED 2019 JULY 23:

That Council adopt the Administration Recommendation contained in Report AC2019-0356.

PREVIOUS COUNCIL DIRECTION / POLICY

The Audit Committee Bylaw (48M2012) states that the Audit Committee is responsible for "overseeing the process of The City's Integrated Risk Management System". The Audit Committee oversees The City's process of risk identification, risk analysis and management procedures to mitigate risk.

At the Strategic Meeting of Council on 2018 January 31, Council adopted the "Council Directives to Administration for 2019-2022 One Calgary Service Plans and Budgets" (Report C2018-0115), which included the following Council Directive under A Well-Run City:

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“We need to recognize that we miss opportunities for innovation in management, service delivery and planning because of an existing culture of risk avoidance. We need to create a culture, including City Council, that embraces appropriate levels of risk, innovation, experimentation, and embraces lessons learned as opportunities to improve.”

On 2018 November 20, the Audit Committee approved its 2019 Work Plan (AC2019-1319) which included consideration of the Annual Principal Corporate Risk Report on 2019 January 31 AC2019-0032 and an update on the IRM Model and Framework on 2019 July 23.

The Integrated Risk Management Council Policy (CC011) states that significant risks need to be reported to Council or Committee and that certain risks need to be discussed in-camera.

BACKGROUND

The IRM Update report to the Audit Committee is the result of many integrated and ongoing streams of work undertaken to identify, analyze, and determine appropriate responses to risk. The risk review process involves the coordination and support of service owners, departments, and senior leaders with the most strategic, relevant and timely information about risks brought to the Audit Committee. Since 2018, IRM has included a mid-year update on the Principal Corporate Risks to raise awareness and to communicate the most strategic risks facing The City of Calgary.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

In 2019 April, the organization undertook a cross-corporate review of service risks and the Principal Corporate Risks (PCRs). This standard review assessed and analysed the service risk registers for most of The City's 61 services and aligned the risks to the PCRs. Risks associated with operating and capital projects are typically incorporated within the service risk registers. Major capital projects may also include a risk register in their reports to Council. The Principal Corporate Risks were then reflected in The City's updated risk profile which was presented and discussed with The City's Administrative Leadership Team (ALT) on 2019 June 18.

For this mid-year update to the Audit Committee, a summary of the updates to the PCRs is provided below:

Principal Corporate Risks (PCRs) Update

The most significant change to the PCRs for this reporting period is the splitting of the former Economic and Social Risk. At the 2018 December 18 ALT meeting, ALT determined that this risk could be better monitored and managed if it was split into two risks: Economic Risk and Social Impact Risk. This work has been completed with the approved names and risk descriptions provided below:

Economic Risk: Citizens and the business community face ongoing pressure due to the volatility of local and regional economies. This risk can impact demands for municipal services (including social supports), municipal revenue, and The City's priorities.

Social Impact Risk: Changes in demographics, economics, and expectations upon the municipal government may put pressure on, and could result in, an inability to respond to the needs of customers who rely on City social programs.

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A complete list of the Principal Corporate Risks is included as Attachment 1.

The Principal Corporate Risks are presented on a heat map in Confidential Attachment 2 to illustrate The City's risk profile. This new presentation style incorporates leading practice of showing top risks, risk rankings, relative placement of risks and risk interconnections. Further to the 2019 June 18 meeting of ALT, five of The City's 17 Principal Corporate Risks including: Capacity for Change, Financial, Growth, Infrastructure Management and Reputational Risks have been plotted on a second heat map; to reflect the anticipated change to the City's risk profile given current stressors, including 2019 budget reductions. Confidential Attachment 2 also includes highlights of The City's risk response strategies.

Finally, Confidential Attachment 2 includes a section on what The City is watching, including global risks and trends. Global risks are included to promote risk awareness and a future-focused approach. Key emerging risks as outlined in the [World Economic Forum \(WEF\), Global Risks Report \(2019\)](#)¹ are also included. This additional information offers a glimpse of potential future areas of analysis that the IRM team will undertake with stakeholders across the organization, including Resilient Calgary.

Integrated Risk Management (IRM) Program Update

The IRM Program continues to support the advancement of risk management across the organization. Attachment 3 provides a detailed update on the IRM Program, focusing on the "Review and Continuous Improvement" pillar of the IRM Framework.

Two key initiatives which are continuing to advance risk practices and culture at The City of Calgary are highlighted below:

Risk Appetite and Tolerance

In 2018, the IRM team developed a framework, common language, and a measurement scale for risk appetite and tolerance: two effective risk management techniques. This year, risk appetite and tolerance guidelines were rolled out to support a risk culture that understands and applies these concepts in decision making. The IRM team is consulting with management and leadership teams and has developed tools and techniques to apply risk appetite and tolerance techniques in different contexts. Working with targeted groups, the IRM team supported them to map out the current and future state for risk appetite and tolerance related to specific risks. Then, IRM developed tools and strategies to realize this movement. By defining risk appetite and tolerance, The City is better able to manage its risks, avoiding the costs associated with excessive controls or those associated with taking on excessive amounts of risk, which may materialize into costly issues.

As part of this work, the IRM team is meeting with Council and Audit Committee members to discuss risk appetite and tolerance for The City of Calgary. The interviews will inform future discussions including a possible Council Strategic Session on risk appetite and tolerance.

2019 IRM Survey and IRM Performance Measure

¹ <https://www.weforum.org/reports/the-global-risks-report-2019>

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In 2019 January, the IRM Program conducted a survey of risk maturity and culture at The City of Calgary. The survey was designed to inform the 2019 IRM workplan and longer-term advancement IRM for the organization. The survey results and analysis provided valuable insights regarding program strengths and opportunities for improvement. The survey asked respondents to identify and rate The City's status of risk maturity. The results indicated that the current maturity rating is below the desired rating. The risk maturity rating is a key performance measure for the IRM program. The IRM team has developed a workplan to address the gap and is implementing strategic changes to the organization to further risk maturity.

Stakeholder Engagement, Research and Communication

IRM provides regular updates and communicates the PCRs to stakeholders across the organization. In addition, cross-corporate risk workshops, facilitated sessions and an e-learning course offer additional opportunities for formal and informal communication.

Strategic Alignment

IRM supports the achievement of Citizen Priorities, Council's Directives and Administration's Commitments within the One Calgary 2019-2022 Service Plans and Budgets by supporting the organization to anticipate and address what might prevent us from achieving these strategic goals. The IRM continuous improvement activities support risk-specific components of Council's Directives and Administration's Commitments:

- Council Directive W4, "...We need to create a culture, including City Council, that embraces appropriate levels of risk, innovation, experimentation, and embraces lessons learned as opportunities to improve.", and
- Administration's Commitments, "...This includes a focus on open and proactive communication between members of Council and Administration and a shared understanding of the organization's tolerance for risk."

IRM is a key component of The City's performance management system and is integrated with other elements of the system: performance measurement, benchmarking and reporting; service review and improvement; and planning and budgeting. Together, these tools enhance the effective management of individual services and the Corporation overall.

Social, Environmental, Economic (External)

Effective risk management helps to ensure The City's ongoing resilience and ability to serve citizens in accordance with The City's strategic goals.

Financial Capacity

Current and future operating budget:

Activities related to the IRM Program continue to be undertaken within approved budgets.

Current and future capital budget:

None related to this report.

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Risk Assessment

The City's IRM program supports decision-making and enables successful management of both opportunities as well as threats and hazards. If risks are not identified, assessed, and managed The City is at risk of incurring unnecessary costs and service disruption.

REASON(S) FOR RECOMMENDATION(S):

This report is provided to Audit Committee to support in its role to oversee the process of risk identification, analysis and risk management procedures by providing information on the efficiency and effectiveness of Administration's risk management work. It is recommended that Confidential Attachment 2 be discussed during the closed portion of the meeting to maintain a balance between comprehensive reporting, transparency, and discussion of the principal risks facing The City, while protecting the interests of the organization from unintended harm.

ATTACHMENTS

1. Attachment 1 – List of The City of Calgary's Principal Corporate Risks (Alphabetical Order)
2. Attachment 2 – The City of Calgary Risk Report (Confidential)
3. Attachment 3 – Integrated Risk Management Program Update