

**Calgary Housing Company – 2019 Analysis of Key Operating and Strategic Risks Impacting the City of Calgary**

**BACKGROUND**

On 2011 May 27, The CHC Board of Directors approved the adoption of the City's Integrated Risk Management (IRM) Policy as a model for use by CHC, and directed CHC administration to annually inform the Board through the Audit and Risk Management (ARM) Committee regarding the current risk status of the company.

Since the approval by the Board of Directors and implementation of the City's IRM Model, CHC administration has taken the necessary steps to implement and sustain the IRM Model. Administration has provided annual risk reports in each year following the original adoption of The City's IRM model.

**PURPOSE AND METHODOLOGY**

Administration continues to actively:

Increase staff awareness and understanding of risks and the IRM model.

Engage all senior managers in the review and in-depth analysis of identified risks (see attachments for detailed analysis).

Develop detailed mitigation/action plans with timelines in addition to an overall mitigation plan for all risks determined to be highest (in terms of both likelihood and impact).

In preparation of this report, Administration's Corporate Management Team (CMT) met on several occasions and evaluated all current identified risks to achieving the business plan goals as part of the CHC Strategic Plan. Based on the professional experience and judgement of Administration, risks to the corporation were discussed and rated in terms of likelihood of occurrence in year 2019 and the significance of their impact on the operational status of CHC. The highest likelihood and highest impact rated risks are continually being monitored. They are outlined in the explained in CHC Risk Analysis. The highest identified risks relate to vacancy rates and rent revenue, reserve funds, uncertainty of funding sources and third party owned assets managed by CHC.

**STAKEHOLDER ENGAGEMENT AND STRATEGIC ALIGNMENT**

Administration continues to engage senior management staff on the IRM model and regularly monitors its risks. Administration supports a corporate philosophy and culture that encourages all staff to manage risks proactively and communicate openly about risk. All CHC staff actively report and manage operational risk in their work plans.

Annual reporting of the CHC Integrated Risk Management report to the CHC Board of Directors is in alignment with CHC's Strategic Priority to Strive for Organizational Excellence, through the review and evaluation of integrated risks in supporting decision making to meet the company's objective of increasing organizational efficiency and effectiveness. This report is also in alignment with both the City of Calgary and CHC's IRM policies through the consistent identification, analysis and communication of integrated risks within the existing business environment at CHC. The following heat map and trend analysis summarize and analyze CHC's key operating and strategic risks which are also the risks that may impact the City of Calgary. Management's mitigation strategies are also part of the analysis.





**Likelihood**

Low	Medium	High	
	<b>Vacancy Rates and Decreased Rent Revenue</b>  <b>Increased Cost of Externally Sourced Services</b>  <b>Operating without an Agreement</b>	<b>Insufficient Funds</b>  <b>Uncertain Funding</b>  <b>Third Party Owned Assets Managed by CHC Falls Below Minimum Condition Standards</b>	High
<b>Emergency Events</b>  <b>Occupational Exposure to Hazards</b>  <b>Security Threats</b>  <b>Damage to Brand</b>	<b>Business Disruptions</b>  <b>CHC Owned Assets Falls Below Minimum Condition Standards</b>  <b>Information Security Breach</b>  <b>Technology Risk Failure</b>  <b>Data Integrity</b>  <b>Internal Fraud</b>		Medium
			Low



Level of Risk	Definition
	The organization is willing to accept and monitor some risks since they have low likelihood of occurrence however with minor consequences.
	The organization recognizes these risks will probably occur and will have moderate consequences. Management will monitor and manage risks by implementing contingency plans to reduce the likelihood and impact of their occurrence.
	The organization recognizes that these risks are top priorities of critical importance to the organization. Management is spending more effort to manage and monitor these risks by implementing risk mitigation strategies to reduce the likelihood and impact of their occurrence.

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## Analysis of CHC's top 3 Risks

Risk #	Risk Category	2017 Risk Map	Change	2018 Risk Map	Change	2019 Risk Map	Trend Explanation and Risk Mitigation Summary
1	<b>Financial Risk: Insufficient Funds</b>	Likelihood: High Impact: High		Likelihood: High Impact: High		Likelihood: High Impact: High	<p><i>Trend</i></p> <ul style="list-style-type: none"> <li>Continues to be one of CHC's top 3 highest risks</li> <li>CHC has insufficient operating and capital reserves to support lifecycle needs, replacement of assets or meet emergencies.</li> <li>The current economic situation is limiting availability of funding for operating and capital reserves.</li> </ul> <p><i>Mitigation</i></p> <ul style="list-style-type: none"> <li>Asset Management is working to complete assessments of buildings conditions</li> <li>New financial reserves strategy is in CHC's 2019-2022 business plan</li> <li>Management reviews regular financial reporting and monitors CHC's revenues and expenditures.</li> </ul>
2	<b>Political Risk: Uncertain Funding</b>	Likelihood: High Impact: High		Likelihood: High Impact: High		Likelihood: High Impact: High	<p><i>Trend</i></p> <ul style="list-style-type: none"> <li>Continues to be one of CHC's top 3 highest risks CHC relies on government transfers to fund Provincially-owned and City-owned social housing portfolios under its management.</li> <li>Annual fluctuations in provincial funding commitments as well as the expiration of the operating agreements in the near future pose a major risk to the financial sustainability social housing portfolios.</li> </ul> <p><i>Mitigation</i></p> <ul style="list-style-type: none"> <li>Significant advocacy efforts have resulted in increased funding in 2018 and maintained in 2019. However, CHC may experience revenue shortfall as operating agreements are expiring, which require sufficient and predictable funding to ensure continuing affordable housing services for the social housing units it manages on behalf of the Government of Alberta.</li> <li>CHC is in the process of negotiating a new operating agreement with the provincial government which would clarify long term commitment and funding responsibility for social housing program.</li> </ul>

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Risk #	Risk Category	2017 Risk Map	Change	2018 Risk Map	Change	2019 Risk Map	Trend Explanation and Risk Mitigation Summary
3	Infrastructure Risk: 3 <sup>rd</sup> Party Owned Assets Managed by CHC Fall Below Minimum Condition Standards	Likelihood: High Impact: High		Likelihood: High Impact: High		Likelihood: High Impact: High	<p><i>Trend</i></p> <ul style="list-style-type: none"> <li>Continues to be one of CHC's top 3 highest risk</li> <li>Current operating agreements do not identify asset management within the scope of CHC contracted services.</li> <li>There is an increased risk of being unable to meet minimum condition standards as assets continue to age and lifecycle maintenance is not appropriately funded and prioritized.</li> </ul> <p><i>Mitigation</i></p> <ul style="list-style-type: none"> <li>Conducting Building Conditions Assessments on City-owned properties to be completed Q3 2019.</li> <li>Future Government of Alberta commitment regarding asset management services for Provincial-owned properties is under negotiation.</li> </ul>

## Risk #1 Financial Risk: Insufficient Funds

CHC currently has insufficient operating and capital reserves to support projected life cycle maintenance, redevelopment and emergency needs.

A reserve fund is a separate fund or account set up by a company to meet any future expenditures or financial obligations such as repairs and improvements that are both planned and/or unplanned in nature. It is important to have these reserves to meet these expenditures and possibly shield the company from large unmanageable payments that could impact the company's financial viability. The creation, use and management of reserve funds in a formalized financial reserve policy is considered good financial management. It is best practice for companies in Canada and the U.S. and a key component to a corporation's credit rating.

### Management Mitigation Strategy

- Through the completion of Phase 1 and 2 of the Sustainability Project, CHC has become more aware of actual reserve requirements. In the 2019 – 2022 business plan CHC has identified achieving operational and financial sustainability as one of the top three organizational priorities and will continue to focus on maturing the sustainability program with a strategic focus on effective portfolio management.
- Action is being taken to better understand and manage revenues and expenditures with the goal to fund appropriate reserves.
- CHC is implementing an Asset Management Program to define what is required in order to correlate with the sources and availability of capital to fund these requirements.
- For the Calhome owned portfolios the Infrastructure & Asset Management group initiated a Building Conditions Assessment (BCA) program. This program assessed building conditions and the anticipated capital and non-recurring funding requirements for individual building

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components. The completion of the BCAs is anticipated in year 2019. These funding requirements define the required lifecycle reserve. For 2019 and 2019 these lifecycle requirements have been funded by provincial grants, capital funding and City of Calgary capital allocations. A written services offer has been presented to The City and Province for the services of CHC Asset Management division to assist with sustainability plans for respective properties.

- A reserve strategy is in the CHC work plan with expected reserve policy and reserve terms of reference to be developed in 2020-2021. This strategy will set up a structure and priority model which will guide and establish reserves at CHC.

## **Risk 2 Political Risk: Uncertain Funding**

A funding gap exists between the rent paid by social housing tenants, which is provincially regulated, the current amount of subsidy which CHC receives from the Province, and the actual cost to operate housing to a minimum standard. CHC's 2018 operating budget allocation from the Province was increased from \$12M to \$18M, and was recently maintained at that level for 2019, which is positive. However, capital grant funding is uncertain year-to-year and creates risk of unit closures for any work over \$5,000 – especially in the first quarter of the year before Provincial budgets are confirmed at the end of March. The uncertainty over capital funding also delays project planning and procurement, resulting in capital work that often intensifies in the winter months when this work is harder and more expensive to accomplish.

CHC requires sufficient and predictable funding to ensure that the units it manages on behalf of the Government of Alberta meet Minimum Housing and Health Standards. Furthermore, the upcoming expiry of operating agreements (where properties will no longer receive any government subsidy), means that CHC requires investment to address the maintenance backlog and to ensure a viable transition to a more financially sustainable operating model.

### **Management Mitigation Strategy**

- CHC is in the process of negotiating a new operating agreement with the provincial government which would clarify the funding responsibility that lies with the government and have more specific provisions relating to the commitment of long term funding of social housing that should be provided. The agreement will also more specifically spell out the consequences or options that would be available to all parties if a CHC funding request was not met or only partially met. CHC is confident that the new agreement would go a long way to addressing and mitigating this risk.
- CHC will continue to prepare for the eventuality that the 2020 budget request is unmet. Preparations include:
  - o Assessing the legal obligations of all parties within the existing agreements.
  - o Attempting to reach a new agreement.
  - o Continuing to narrow the gap on the estimated investment backlog through the completion of building condition assessments.
- Providing clear and concise budget requirements for 2020 and beyond.

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Working with the Province to obtain flexibility over regulations that govern rent calculation to pilot a more financially sustainable, mixed income operating model. CHC is continuing work on the sustainability project which assesses the financial requirements related to operating social housing once the provincial operating agreements expire. The aim is to transition properties to a self-sustaining model.

### **Risk 3 Infrastructure Risk: Third Party Assets Managed by CHC Fall Below Minimum Standard**

As the CHC-managed portfolio of assets owned by third parties continues to age, life cycle maintenance needs to be appropriately identified, prioritized funded and implemented or there will be an increased risk of minimum condition standards not being met or of the lifespan of the housing stock being reduced. As well, construction methods and materials incorporated in older housing stock can represent an environmental safety or health risk if inappropriately managed. Also, there is a risk of high operational costs due to increased energy consumption as a result of dated construction materials or deteriorated asset condition.

#### **Management Mitigation Strategy for Third Party Owned Assets Managed by Calgary Housing Company**

Current operating agreements between CHC, The City and the Province do not identify asset management within the scope of CHC contracted services. This asset management program would provide a disciplined basis for asset condition assessments and capital investment prioritization based on agreed risk and level of service criteria. The program would define how capital investment decisions would be conducted and the resulting allocation of risk responsibility identified between CHC and the asset owner. The City of Calgary has responded by providing funding for conducting Building Condition Assessments on the City-owned properties managed by CHC. Asset management roles, and accountability is part of the operating agreement negotiations currently being conducted between CHC and the Province.