

Risk Analysis Related to 2020 Adjustment Scenarios

The City's 2020 Adjustment reduction scenarios that comprise the potential reduction of the tax rate increase to 0 per cent and 1.5 per cent have associated risks. Using a bottom-up and top-down process, this document describes the impact that these reductions would have on the Principal Corporate Risks, defined as The City's strategic and corporate risks that could impact the organization. Further, it provides a summary of the risk information collected, specific to the reduction of the tax rate increase to 0 per cent and 1.5 per cent. The City has robust and rigorous corporate risk management processes and practices in place to monitor and respond to new and existing risks which inform risk management strategies associated with the 2020 Adjustments.

Risk Impacts on The City's Risk Profile

The City of Calgary will continue to monitor and assess its risk profile associated with the 2020 Adjustments. In addition, the cumulative impacts of the approved 2019 budget reductions, previous budget saving efforts and upcoming savings initiatives will be monitored to ensure the organization operates efficiently and effectively. Two risks were identified following an analysis that amalgamated, aggregated, and correlated risk information across the reduction scenarios of the tax rate increase to 0 per cent and 1.5.

Long-Term Strategic Risk

There is a strategic risk that threatens the long-term success of reducing the costs of municipal government in Calgary. An analysis of The City of Calgary's 2020 Adjustment reduction packages found that approximately 50% of them have indications of risk to long-term, transformational success. For example, adjustment packages describe delaying or deferring work, transferring operating budget to another funding source (without reducing the cost or amount of work being done), or reducing service in an area of work that has seen a stable or increased demand for that service.

80% of public sector cost-cutting programs fail according to a study of thousands of change programs.¹ To address this failure rate, the study found that three strategies were present in the most successful endeavours:

- Change initiatives have sufficient dedicated personnel
- Financial savings are used to fund further reforms
- Sophisticated use of data and analytics

Risk to The City's Workforce

27% of the risks identified in the adjustment packages are related to The City's workforce. For the amount of positions that would be reduced, see Attachment 3. Workforce risks are correlated to three Principal Corporate Risks:

- Capacity for Change Risk
- Talent Management and Workforce Planning Vulnerability Risk
- Health and Safety Risk

These risks are specific to employees and may result in negative impacts, such as (as described in the adjustment packages):

¹ Tera Allas Roland Dillon Vasudha Gupta (2018). *A smarter approach to cost reduction in the public sector*. McKinsey & Company.

- Increased demands on employees (e.g. do more with less)
- Decreased employee health, safety and wellness (e.g. burnout, morale challenges, diminished engagement)
- Potential decreased resiliency and retention of staff

The City is actively watching these risks to gauge changes in likelihood and impact. The City is also monitoring the effectiveness and success of ongoing work to respond to long-term strategic risk and risk to the organization's workforce.

Impact on The City's Principal Corporate Risks

Below are the five Principal Corporate Risks that The City is most closely watching related to the 2020 Adjustments (in alphabetical order). A full list of the Principal Corporate Risks is included in the Appendix.

Capacity for Change Risk

This risk was one of the most frequently cited risks in the 2020 Adjustment packages. A repeated theme is that the overall impacts of the adjustments may take some time to materialize or to be reflected in risk indicators/performance measures. Specifically, this relates to health, safety, and wellness strategies and concern with staff retention and attraction.

Financial Risk

Most adjustment packages that raised this risk rated it as "Low", with a few ratings of "Medium." The Medium risks are related to future potential increase in costs to a service. There is a longer-term, financial strategic risk as some of the proposed adjustment packages listed delaying or deferring work, transferring funding sources or reducing service in an area with increased demand for this service. These sorts of strategies could result in budget reductions that are not sustainable over time. Additionally, the organization is taking on more corporate risk by reducing corporate costs to manage fluctuating prices. This reduces the ability to absorb adverse price movements and other potential statutory obligations.

Growth Risk

In 2019 June, this risk was flagged by the Administrative Leadership Team. Calgary is still experiencing growth, and this growth could become a challenge if associated funding is not aligned. Most adjustment packages did not mention this risk. When it was raised, it was in reference to specific work to an individual service's growth. This is a long-term strategic risk that The City will need to monitor and watch.

Infrastructure Management Risk

This risk is expected to become more challenging to address with a potential accumulating impact when implementing the 2019 reductions and the 2020 Adjustment reductions. This risk is not flagged frequently in the adjustment packages, but when it is, there is a consistent message: deferred maintenance and delayed upgrades increase risk in this area. Though not mentioned often, the impact of this risk could be felt throughout the organization. The City will continue to actively manage assets through lifecycle maintenance and replacement in capital infrastructure investment programs.

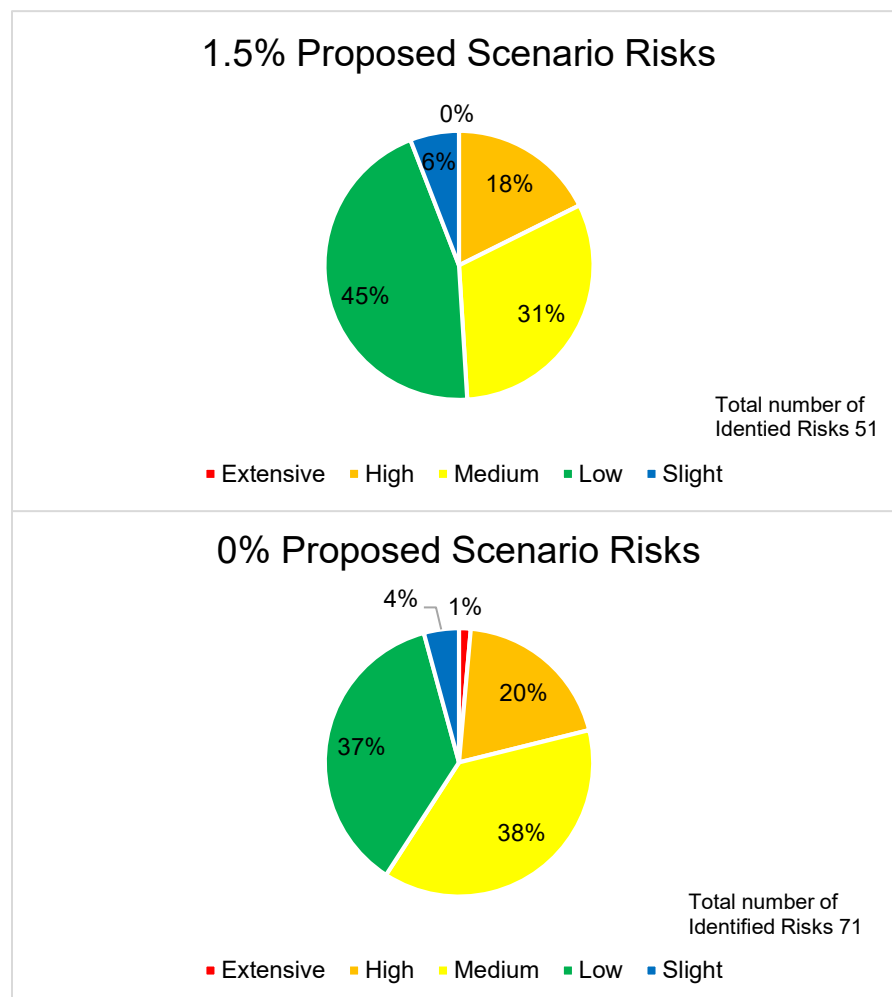
Reputation Risk

This risk was flagged frequently compared to other Principal Corporate Risks but was not flagged as a major concern in the adjustment packages. This may be an organization-wide, strategic risk that is not captured fully in the adjustment packages.

Summary of Risk Information in the 0% and 1.5% Adjustment Packages

Risks associated with the reduction of the tax rate increase to 0 per cent and 1.5 per cent adjustments were identified by service owners and were rated to determine potential impacts on The City's ability to achieve its results. Risks were rated based on a scale of likelihood and impact to determine the risk's overall risk rating (Slight, Low, Medium, High, or Extensive) based on The City's risk assessment matrix. This information was used to determine the impacts of the 0 per cent and 1.5 per cent reduction scenarios on The City's Principal Corporate Risks.

In total, for the 0 per cent scenario, 92 packages were submitted and for the 1.5 per cent scenario 57 packages were submitted. An assessment of the risks in the reduction packages shows that 49 packages (53%) identified risks for the 0 per cent scenario and 39 packages (68%) listed risks for the 1.5 per cent scenario. Of those that did, most of the risks associated with both scenarios are rated in the "Medium" or "Low" category. The diagram below provides information on the risk profile for the 0 per cent and 1.5 per cent scenarios.



APPENDIX: THE CITY OF CALGARY'S PRINCIPAL CORPORATE RISKS (ALPHABETICAL ORDER)

1. **Business Continuity Risk:** An interruption to an essential service provided to Calgarians caused by a vulnerability being exposed to a natural, technological, or human hazard.
2. **Capacity for Change Risk:** Increasing velocity, pace and quantity of change in the natural, social, economic and political environment, combined with limited flexibility in the organization to respond contributes to reduced capacity, preparation and experience required to implement new initiatives and adapt to changing priorities.
3. **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.
4. **Environmental Risk:** Potential increase in severe weather and climatic changes may cause disruptions to operations and service delivery. Corporate and community-wide greenhouse gas (GHG) emissions may not meet reduction targets for 2020.
5. **Financial Risk:** Lower general revenues and/or higher expenses than budgeted negatively impacts current and future operating budgets, service delivery, tax rates and our ability to adapt to growth and increases The City's reliance on debt.
6. **Growth Risk:** While growth carries many economic and social benefits, it is also a significant risk for The City because many services and infrastructure need to be in place prior to or timed with demand. This means The City must anticipate both the level and spatial pattern of growth. These risks can impact The City's capacity to deliver and provide infrastructure and services that meet city-wide demands.
7. **Health & Safety Risk:** Potential harm to City employees and contractors. This may result from non-compliance with health and safety regulations or an incident that could impact City employees/contractors and/or citizens and expose the organization to potential financial and reputational risks.
8. **Infrastructure Management Risk:** The City owns and operates public infrastructure systems including water service, storm and sanitary sewers, roads, sidewalks, pathways, bridges and other structures and buildings. Ensuring that assets are in good, reliable condition is essential to keeping the city safe. The City is exposed to the risk of assets failing, particularly from inadequate lifecycle maintenance.
9. **Legal & Compliance Risk:** Law provides legal, governance, risk management, and issues management advice with respect to federal and provincial laws and bylaws. Advice is not always sought in sufficient time to allow a strategy to be developed or action to be taken on a proactive basis, resulting in the corporation having to react to issues or lawsuits. This can impair the corporation's ability to complete projects and conclude transactions on time, on budget and within scope, and may result in financial losses or unnecessary business, legal, financial or reputational risk for The City.
10. **Operations, Process Risk:** Failure to ensure appropriate processes are in place to manage the complexity of operations.

11. **Partnership Risk (Civic Partners):** Counterparty risk arising from City partners unable to deliver services.
12. **Political Risk:** Changing priorities or actions of municipal, regional, or other orders of government paired with rapid changes in the natural, social or economic environment could result in funding challenges that may adversely impact The City's ability to deliver on citizen expectations.
13. **Reputation Risk:** Reputation risk is damage to the image of The City or negative perceptions by citizens or stakeholders as a result of actions of elected officials or City employees. This risk can threaten The City's ability to maintain positive and productive relationships with citizens, businesses, partners and the ability to achieve its corporate objectives.
14. **Security Risk:** A violent attack on or in City space could result in loss of life, serious injury as well as halting critical service delivery.
15. **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.
16. **Talent Management & Workforce Planning Vulnerability Risk:** Inability to attract, develop, engage and retain key talent and knowledge in order to meet current and future business needs.
17. **Technology Risk:** There is a risk to business disruption due to vulnerability or failure of applications. Rapid pace of emerging threats such as cyber-attacks (willful attack on public infrastructure, public safety, transportation, water treatment, system access, intentional damage, privacy breach, distributed denial-of-service attacks, etc.). Potential impacts include breaches of confidential information, and disruption to the availability of critical systems and applications, and the integrity of those systems.