

## Analysis of The City’s Risk Profile (Year-end 2019)

A risk profile provides identification, analysis, and levels of risk taken. This information is useful as it promotes risk-based decision making which is tied to The City’s ability to achieve results. This attachment provides The City’s risk profile in three parts:

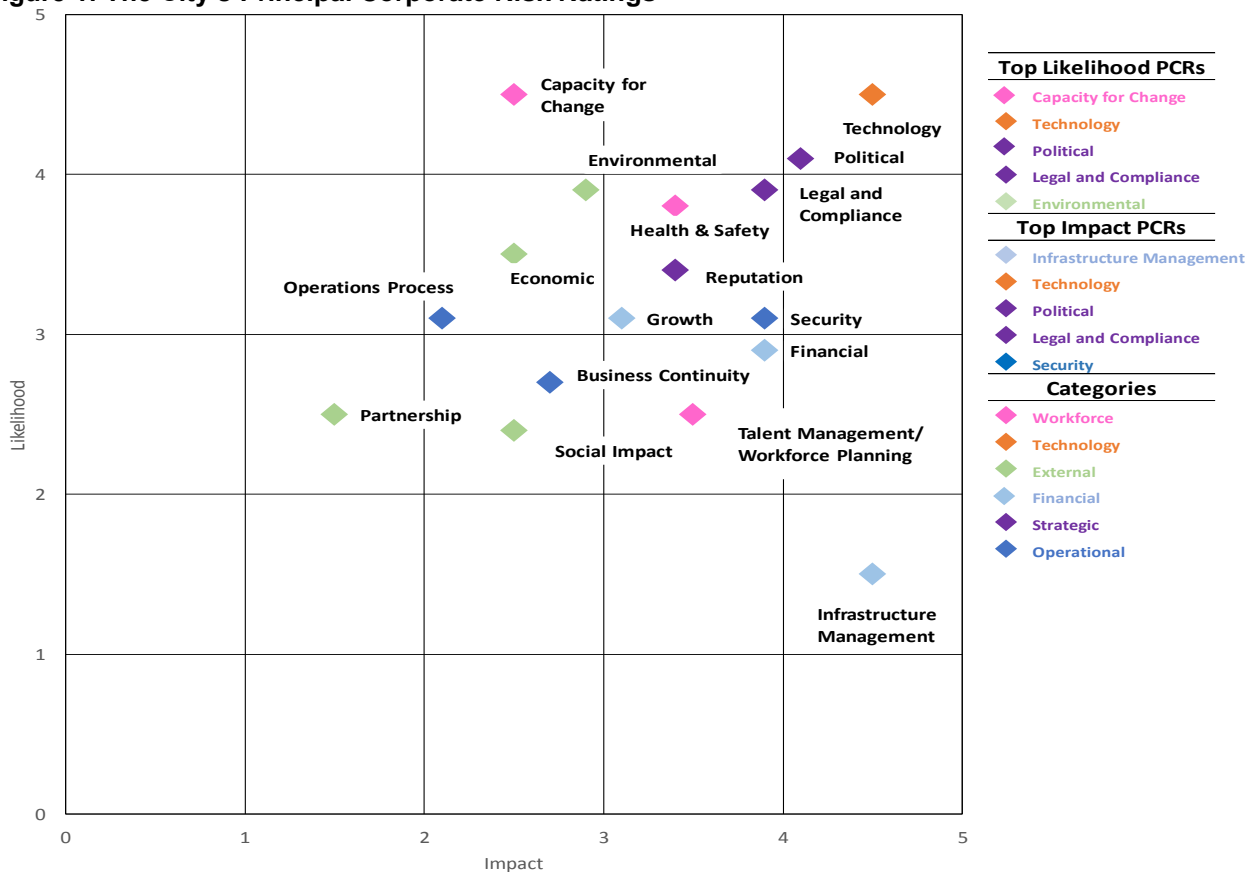
1. A visual representation of The Principal Corporate Risks’ (PCRs) ratings resulting from the 2019 year-end cross-corporate review, including key points and changes since the last update in 2019 July.
2. The status of the PCRs we have been prioritizing throughout 2019 as well as the five priority risks for 2020.
3. The findings from the recent bottom-up and top down analysis of risks to the corporation.

As The City continues to be more transparent, more analysis of the PCRs has been made public. This communicates to citizens The City is managing its risks to provide efficient and effective municipal services.

### Part 1: Principal Corporate Risk Ratings

The City’s risk profile is updated twice a year. Figure 1 illustrates The City’s Principal Corporate Risk (PCR) ratings as of 2019 year-end. This format shows the relative placement of the PCRs and visualizes The City’s top 5 risks in terms of likelihood and impact.

Figure 1: The City’s Principal Corporate Risk Ratings



Note: The categories in Figure 1 (i.e. workforce, technology, external, financial, strategic, operational) indicate which PCRs are related and connected to each other. Risks within a common category can have a compounding impact.

These PCRs have changed their rating since the 2019 Mid-Year Corporate Risk Report to the Audit Committee:

PCR	Change	Justification
<b>Environmental Risk</b>	Impact rating changed from Significant to Moderate	Rating reflects a shift in emphasis from contaminated sites (mid-year) to climate change (year-end).
<b>Operations, Process Risk</b>	Risk rating has changed from Medium to High	Rating reflects risk frequently flagged in the Service Risk Registers as "high," struggles to deliver service effectively during a period of reducing resources.
<b>Political Risk</b>	Risk rating has changed from High to Extensive	Rating reflects shift in amount and timing of funding from other orders of government (federal and provincial). This puts capital investments and service delivery dependent on such funding at risk.
<b>Reputation Risk</b>	Risk rating has changed from Medium to High	Rating reflects that citizen satisfaction related to City performance declined for both Council and Administration in 2019. Performance measures monitored by The City for this risk have likely been negatively impacted by the sluggish economic recovery, increased public scrutiny related to the property tax shift, and reductions in City services.
<b>Social Impact Risk</b>	Risk rating has changed from Low to Medium	Rating reflects an increase in financial hardship for Calgarians, the gap between affordable housing need and supply, and the rising demand for social support services.
<b>Talent Management / Workforce Planning Risk</b>	Risk rating has changed from Medium to High	Rating reflects that some areas in The City have positions requiring a specific skill set which continue to be difficult to fill. Throughout 2019 the ability for The City to engage and retain employees has become more challenging.
<b>Technology Risk</b>	Risk rating has changed from High to Extensive	Rating reflects that for this risk the corporation has a high level of exposure with the potential for a severe risk event. Cyber threats and attacks are increasing globally including municipalities in North America.

The City's risk rating is determined by combining a risk's likelihood and impact, see Appendix 1 for The City's standard terms and definitions.

Each Principal Corporate Risk is managed by a risk owner and their teams through monitoring key risk measures or indicators, overseeing existing controls or treatment techniques, and implementing new controls or treatments as needed.

## **Part 2: Five Priority Risks**

Risk levels can rise in an environment of increased complexity, volatility, and/or exposure. As a result, some risks require more focused attention at a given point in time than others. These risks can be identified through applying the following criteria:

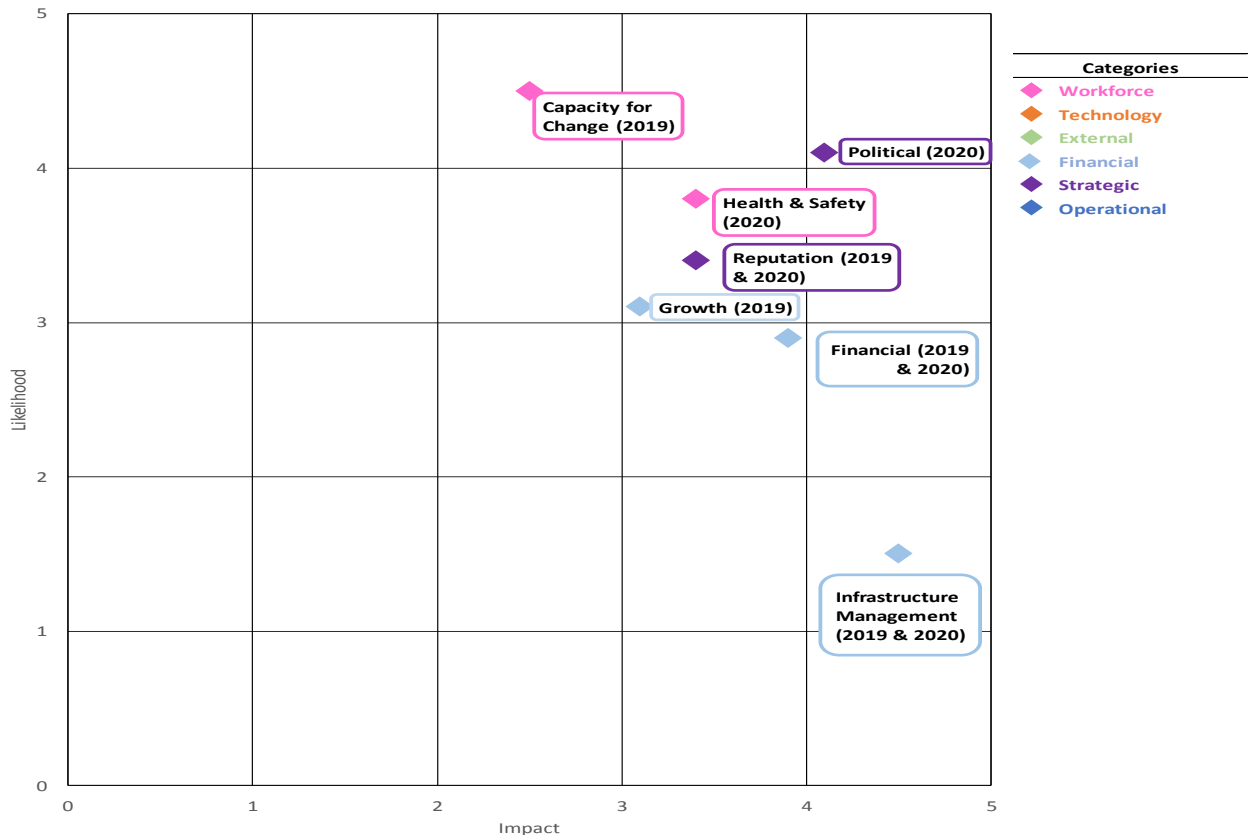
- Expected increase in pressure on this risk
- Requires focus and attention on risk controls or responses

- Requires cross-corporate effort to effectively manage

The City will continue to report, monitor, and manage all significant risks to the corporation. Using a list of five priority risks supports this goal. Specifically, the advantages to maintain an ongoing, updated list of risks to prioritize is that it allows for focused discussion, offers prominence to risks that require extra attention, and is forward looking which promotes proactive strategies.

In 2019, 5 risks were identified and underwent enhanced reporting and monitoring. For 2020, the process identified some changes in the 5 risks most requiring attention. Figure 2 illustrates the five priority risks throughout 2019 as well as the revised list of priority risks for 2020.

**Figure 2: Priority Risks in 2019 and 2020**



**A. 2019 priority risks that are not included for 2020**

*Capacity for Change Risk*

Throughout 2019, City services have consistently noted an increase in internal and external changes impacting their ability to deliver services. Concern has been raised about whether the organization can rely on the same ability to change as it has in the past. This is due to constrained resources, morale, as well as perceptions of risk aversion.

The City is monitoring this risk as it may take some time to materialize or to be reflected in risk indicators/performance measures. This relates to health, safety, and wellness strategies and concern with staff retention and attraction.

While this will remain an important risk in 2020, there is an opportunity to shift our focus to the Health & Safety Risk. The City has undergone a period of intensive change in 2019 and this can impact employees' health, safety and wellness. As such the Health and Safety Risk has been identified so the organization can actively manage specific exposures and impacts to its workforce.

#### *Growth Risk*

The City of Calgary undertook an ambitious growth strategy in 2018 to support the needs of the city and its population. While the city is experiencing growth, it is not as high as projected, and this growth could become a challenge if associated funding is not aligned. This risk is related to the Economic Risk as well as other risks related to service delivery.

While this risk can have short-term ramifications, it is also a long-term strategic risk. The City has developed and presented a new reporting structure to monitor and support decision making to manage this risk.

While this will remain an important risk to monitor and manage in 2020, The City has the opportunity to shift its focus to the Political Risk, as the relationship between orders of government can support our management of both the Growth Risk and the Economic Risk.

### B. 2019 priority risks that are included for 2020

#### *Financial Risk*

Financial risk has been frequently mentioned by services, and during the most recent Service Risk Register submissions we have seen an increase in 'High' and 'Severe' ratings for this risk. This risk is related to the Economic Risk, and The City's response to Calgary's economic recovery. The organization is taking on more corporate financial risk by reducing corporate costs to manage fluctuating prices. This reduces the ability to absorb adverse price movements and other potential statutory obligations.

Financial risk is considered for long range planning as well as strategic decision making. This risk is actively managed and closely monitored to ensure the continued success in the financial management of the organization.

This risk is one to prioritize in 2020 because:

- The City is still facing uncertainty, particularly related to property tax revenues, anticipated offsite levies, and the impact of upcoming provincial budgets.
- In 2018 December, a minimalist appetite for debt risk was identified. The City actively focuses on mitigating this risk. This risk has an overall rating of 'High' and is closely monitored.

#### *Infrastructure Management Risk*

This risk is expected to become more challenging with an amalgamation of risk due to the 2019 July budget reductions, the 2019 November service plans and budgets adjustments, and the 2019 provincial budget's reductions to capital funding. The City has flagged a funding gap between allocated resources and what is required to maintain existing, and invest in new, infrastructure. There are two consistent messages when this risk is raised by services. The first is that some services require positions with specific expertise to better

manage this risk. The second is that deferred maintenance/delayed upgrades increase risk in this area. This risk is impacted by the capital funding risk, which is significant because:

- The City's capital program is also facing heightened levels of uncertainty and risk exposure. The provincial budget tabled in 2019 impacts The City as municipal capital grants and programs have been reduced from anticipated levels or eliminated. As a result, The City has reviewed and re-balanced the 2019-2023+ capital budget to address the funding shortfall.
- There are several unknowns related to capital funding including: new regulations, and the provincial budget in 2020.
- The City will have to re-prioritize work and eliminate selected capital projects and defer others.

The City actively manages assets through lifecycle maintenance and replacement in capital infrastructure investment programs. The City has adopted a prioritization process to ensure the most critical and necessary upgrades and maintenance work is completed first before addressing other concerns with infrastructure.

This risk is one to prioritize in 2020 because:

- Capital funding is increasingly constrained due to recent reductions from other orders of government and as a result The City's ability to meet its desired outcomes for capital projects is at risk. A review of The City's capital portfolio to identify least harm reductions, led by Infrastructure Calgary and supported by the IRM team, is underway to address this risk.
- The City has a cautious appetite for this risk which is rated as the highest impact.

### *Reputation Risk*

The City's risk to its reputation involves the monitoring and managing either an increase or decrease in public trust and confidence. This risk has been raised frequently throughout 2019. The City's reputation is related to the Economic Risk and our response to it, including the ongoing management of the Financial Risk. There is a concern throughout Service Risk Registers that funding will limit resources to the point where we will be unable to deliver services citizens expect, and that this will have an adverse impact on The City's reputation.

This risk is actively monitored through regular research and engagement with stakeholders and citizens. By aligning communication strategies to corporate goals and priorities we can continue to manage and respond to this risk using both preventative and reactive measures.

This risk is one to prioritize in 2020 because:

- The City has been experiencing, and may continue to experience, increased public scrutiny. Reputation indicators such as citizen trust, satisfaction with City performance and perceptions of transparency have experienced declines. As The City is invested in managing this risk, it will continue to monitor this trend.
- The City's appetite for this risk is cautious, and the risk rating moved from 'Medium' in 2019 June to 'High' in 2019 December.

## C. New Risks to Prioritize for 2020

*Health & Safety Risk: focusing on people in the organization*

This risk is one to prioritize in 2020 because:

- Health, safety, and wellness has been identified as a priority for the organization. Ensuring staff have the resources and support they need reduces this risk.
- This risk is closely related to the Capacity for Change Risk and the Talent Management and Workforce Planning Vulnerability Risk as these three risks impact City staff. It also has significant financial and reputational implications.
- This is an area of risk The City has a minimalist appetite for and it has a risk rating of 'High'.

*Political: impacts from a strategic risk*

This risk is one to prioritize in 2020 because:

- In 2020, The City will continue to monitor and manage the relationship with other orders of government with the intent to provide clarity, input, and collaborative approach to policy and funding.
- The provincial government has noted that further regulations could be reopened and renegotiated. The City will need to prepare for any associated risks.
- The City is focusing on an increase in communication and collaboration between orders of government.
- The City's appetite for this risk is cautious, and it has increased due to the provincial government funding changes, moving from a rating of 'High' to 'Extensive'.

### **Part 3: Risk Analysis and Service Delivery**

The management of the Principal Corporate Risks and using risk information to support strategic decision making relies on the ongoing management of risk at the operational level for service delivery. Service Risk Registers identify, assess, and support the management of risks to service delivery. They are reviewed and updated by service owners throughout the corporation. The service risks are collected and correlated twice a year through a corporate risk review process. Following the analysis of the Service Risk Registers for the 2019 year-end review, two overall conclusions were drawn that apply broadly throughout the organization.

The first is that the Financial Risk and the Operations, Process Risk are most frequently cited, this means those two risks are the most prevalent and top of mind for service owners.

The second conclusion is that there remains a significant portion (53%) of "High" and "Severe" risks, most of which have been identified as requiring "significant improvement" to manage. This trend will continue to be monitored and a more robust review of risk response strategies will be undertaken if it continues. The IRM team will continue to work with risk owners and their teams to support the development, implementation, and tracking of risk response strategies.

### Appendix 1: The City’s Risk Matrix

		Level		Probability*				
Likelihood	<b>5</b> Almost Certain	90% and greater	Medium	High	High	Extensive	Extensive	
	<b>4</b> Likely	65-89%	Low	Medium	High	High	Extensive	
	<b>3</b> Possible	35-64%	Low	Low	Medium	High	High	
	<b>2</b> Unlikely	11-34%	Slight	Low	Low	Medium	High	
	<b>1</b> Rare	10% and less	Slight	Slight	Low	Low	Medium	
		<b>Impact</b>						
		<b>1</b> Negligible	<b>2</b> Minor	<b>3</b> Moderate	<b>4</b> Significant	<b>5</b> Severe		
		Minimal impact. Still able to achieve objectives without disruption.	Coping strategies required - able to be addressed with existing plans and resources.	Challenges to achieve objectives. Some delay, aspects of objectives only met in part.	Difficulties to achieve objectives. Delays or notable aspects of objectives not completed.	Unable to meet objectives due to serious, extended disruption.		

### Appendix 2: The City’s Risk Appetite Scale

Risk Appetite is the level of risk that the organization is willing to accept to achieve its results.

The City has adopted the following common language and scale to refer to levels of risk appetite which can be applied to different contexts, risks, and areas of risk.

Level 1 Averse	Level 2 Minimalist	Level 3 Cautious	Level 4 Open	Level 5 Motivated
The City is not willing to accept risk under any circumstances.	The City is not willing to accept risk in most circumstances.	The City is willing to accept risk in certain circumstances.	The City is willing to accept risks.	The City accepts opportunities that are inherently high risk.

Note: When specific appetite is referenced, it is based on discussions with senior management (i.e. Principal Corporate Risk Owners and ALT).