

Risk Analysis for the Mid-Cycle Adjustments

Risk reporting is necessary to understand where we may not be able to achieve our outcomes or where opportunities may be. In 2020, Calgary has experienced a combination of volatile crude oil prices and the COVID-19 pandemic, which have caused shocks to Calgary's economy. As The City responds to these shocks, we continue to experience an increased strain and risk exposure in certain areas.

The City is monitoring the progress of the COVID-19 pandemic, while continuously assessing any new or revised risk response strategies that may be required. As The City continues its relaunch strategy, we are maintaining a clear focus on watching any change in risk related to health, safety, and wellness of our citizens and staff, as well as our financial risks. The City has implemented specific risk response strategies in these areas to address the dynamic, changing context in which we operate. One of these strategies is the SAVE program.

The SAVE program is a strategic approach to finding savings for The City in 2021 and 2022 and a catalyst for a cultural shift, continuing our journey to become a modern municipal government. Part of taking a strategic approach requires assessing risk to the organization. Both positive risks that present an opportunity to pursue, and negative risks that may adversely impact our ability to meet our objectives, have been analyzed with corresponding response strategies.

A thorough assessment was undertaken to determine any specific risk information identified as part of our review of the SAVE business cases and the other aspects of the Mid-Cycle Adjustments to service plans and budgets. This package carries a risk of overlap between the savings that have been committed by the SAVE program and the additional savings ideas put forward by Service Owners. Below are the results of this analysis.

Citizen Facing Service Levels

Citizen facing service level risks were not identified frequently in the reductions (outside of SAVE) that were put forward by services, however, special attention was given to these types of risks to ensure proper response strategies are in place for them. Some key findings from these submissions are:

- Overall the other base budget reductions proposed by services have not materially increased the risk of decreased service levels for citizens facing services.
- Most services were able to identify base reductions in addition to their contribution to SAVE that don't directly impact citizen facing services. However, there were some concerns of increased risk exposure to services levels identified by two services: Fire and Emergency Response and Property Assessment.

Short -Term Savings and Long-Term Financial Sustainability

Reductions (outside of SAVE) did highlight a tension between short-term savings and long-term sustainability. Some key findings are:

- Overall, reductions (outside of SAVE) did not increase the risk to the sustainability of reserves.
- Some proposed reductions are focused on finding short-term savings (e.g. using capital funding for positions to maintain service level) and are not necessarily focused on longer term sustainable savings. Using capital funding is more of a temporary solution because this funding may be needed for essential capital assets in the future.

- The majority of reduction packages don't directly impact citizen facing services. The strained financial position for some internal services may increase likelihood of service impacts.

Talent and Skill Gap

Workforce risk was the most frequently identified in reductions (outside of SAVE), in particular risk of an increasing talent and skill gap. Some key findings from these submissions are:

- Some of the proposed reduction packages lead to decreased access to training and learning, which can negatively impact employee morale and engagement, as well as the ability to attract and retain key talent.
- Some services noted they may be at risk of experiencing a gap of talent and skills required to deal with changing business needs and to implement new processes (for example this was raised by IT Solutions and Support). This is because resources available to support and lead change has been impacted by increases in demand.

5 Priority Risks

Economic Risk – The economic risk to The City has increased throughout 2020. As a result, multiple services expect deferred or delayed revenue. The City is watching for continued strain on the economy from lower than projected growth and residual impacts from the oil price collapse earlier this year. Several services noted concern over anticipated economic impacts in the event of a second wave of COVID-19.

Financial Risk – While certain services indicated they will continue to draw from reserves to offset decreases in revenue or increased expenditure, or to address adverse variation from forecasted growth, the level of increased risk exposure varies amongst different services. Services have identified costs related to sustained closures or re-launch activities as a risk to their ability to continue to maintain desired service levels.

Health, Safety, and Wellness Risk – This risk remains high and is impacting some areas more than others. The organization has indicated this risk is a top priority as we continue to focus on the health, safety, and wellness of our citizens, customers, and staff. The City adopted a COVID-19 – Face Coverings Bylaw (26M2020). The City is managing the need for personal protective equipment as well as process changes to ensure safety equipment and protocols are established and effective.

Infrastructure Management Risk – There is a broad, long-term risk to The City's ability to maintain infrastructure conditions as we experience limits in capital funding. The risk exposure in this area varies as many City owned buildings are experiencing decreased usage which can be translated into reduced maintenance service levels and costs. However, long-term planning projects are also being reduced which may impact our ability to proactively manage our building assets.

Reputation Risk – While a number of services are gradually reopening, some service reductions remain which may negatively impact citizens' perceptions. Reopening City services could pose a threat to reputation if the public perceives that we are not able to do so safely. Also, there is a risk that The City may be perceived as opting for new or sustained reductions in areas that increase exposure for those experiencing vulnerability in a time of need due to COVID-19.

SAVE Program and Risk

As we transition from developing business cases for the Mid-Cycle Adjustments to simultaneously preparing to implement these initiatives and developing a new set of business cases in 2021 there are additional risks.

Risks include those related to the impact the changes will have on the organization.

There are positive risks that could result in additional savings and efficiencies for the organization. As the Wave 1 initiatives are implemented, alongside a culture shift that promotes innovation, greater cost reductions as well as opportunities to modernize municipal government and better meet citizen's needs may arise.

Some key risks to this stage of the SAVE program are ensuring processes and accountability structures are in place to realize and then sustain savings estimated in the business cases. This will involve significant effort in terms of prioritization (both within SAVE and in relation to other work), change leadership, change management, communications, and managing stakeholder relationships.

Further, there is continual work to be done in terms of tracking and measuring potential impacts of SAVE initiatives on performance measures, transferring or altering people's workload, loss of knowledge to the organization, and managing shifting processes.

Operational risks to the SAVE program are managed by the program team and escalated, as necessary, to ELT in weekly updates. Risks are being monitored and responded to so that the organization can continue to find savings and move forward on its path to meeting SAVE program objectives. Below is an analysis of the SAVE business cases.

Business Case Risk Analysis

All Wave 1 SAVE business cases, and the portfolio of cases generally, were evaluated for relevant risk information. Risks were rolled up to three categories: risk of inaction, implementation, and operational. **Overall, the number of risks identified increase from inaction to operational and at the same time the overall level of risk (as demonstrated in the risk ratings) we are taking on as an organization decreases.** The operational risks are mostly rated medium compared to the risk of inaction where most are rated high.

Below there are more details about types of risks for each category.

Risk of inaction: If we do not move forward with these initiatives, these are the kinds of risk the organization faces:

Total # of risks	Slight	Low	Medium	High	Severe
36	0%	11%	28%	56%	6%

- Missed opportunities to continue to improve and protect the health, safety and wellness of employees as well as improve service delivery using technology.
- Missed opportunities to update practices now can lead to increased long-term costs in the future.
- Increased financial risk, when it comes to managing the sustainability of reserves.
- Potential challenges with attracting and retaining talent, as The City is not keeping up with the competition when it comes to modernizing and updating processes, technology, and working from home practices.

Implementation: In order to implement these initiatives, the organization would have to accept risks in these areas.

Total # of risks	Slight	Low	Medium	High	Severe
76	0%	32%	38%	30%	0%

- There is an implementation risk that savings are not realized as expected and we rely on unsustainable sources of funding to cover ongoing costs after a service's budget is reduced. Further, there is an enhanced risk for cross corporate business cases in which savings are not yet linked to specific services' budgets.
- The success and sustainability of some initiatives requires a transformational change in culture. Some may be resistant to certain changes.
- Leadership capacity to support the implementation and lead the change of new processes and automatization.
- The reduced service levels or the automatization of certain processes may impact citizen satisfaction with City services.
- The City may experience a gap in talent and skills or loss of knowledge and expertise within the workforce.
- Labour relations may be impacted by certain change initiatives.
- Employee morale may be at risk due to the aggregate impacts of SAVE initiatives.

Operational: Once the initiatives are implemented, there will be some ongoing risk for the organization to manage.

Total # of risks	Slight	Low	Medium	High	Severe
74	4%	27%	50%	16%	3%

- There is the potential for a slight increase in security risk due to the automatization of certain services.
- Changes to technology assets and processes can create compatibility issues with other technology platforms.
- There is some financial risk that particular business units do not adapt to a corporate approach to savings, as a result, savings may not be sustained over a longer-term.
- There could be limited capacity and resources for certain services to be resilient and flexible.