

ANNUAL PRINCIPAL CORPORATE RISK REPORT

EXECUTIVE SUMMARY

Integrated Risk Management (IRM) enhances The City's ability to establish a reliable basis for decision making and planning while encouraging proactive rather than reactive management. Consistent with the mandate of the Audit Committee, this report provides an overview of the principal risks that could affect the achievement of Council Priorities and the Council-approved Leadership Strategic Plan (LSP).

ADMINISTRATION RECOMMENDATION(S)

That the Audit Committee:

1. Receives this report for information.
2. Recommends that Council receive this report for information; and
3. That the Attachment remain confidential pursuant to Sections 24 (1) (a)&(b) of the Freedom of Information and Protection of Privacy Act for a period of 15 years.

RECOMMENDATION OF THE AUDIT COMMITTEE, DATED 2017 JANUARY 19:

That the Administration Recommendations contained in Report AC2017-0020 be approved.

PREVIOUS COUNCIL DIRECTION / POLICY

The Audit Committee Bylaw (48M2012) states that the Audit Committee, among other things, "oversees The City's process of risk identification, analysis and management procedures to [manage] risk". Specifically, with regard to risk management, the Bylaw states that Audit Committee receives and reviews at least twice yearly reports from Administration on the City's Integrated Risk Management (IRM).

On 2016 November 10, the Audit committee approved its 2017 Annual Work Plan (AC2016-0870), which included consideration of the Annual Principal Corporate Risk Report on 2017 January 19. Consistent with this Work Plan, this report focuses on the Principal Corporate Risks which could affect the achievement of Council Priorities, Action Plan (C2014-0863) and the Council-approved Leadership Strategic Plan (LSP) (C2014-0703). Audit Committee's 2017 Annual Work Plan also includes an update on the IRM Model and Framework, which will be brought forward on 2017 July 27.

BACKGROUND

The City Manager's Annual Principal Corporate Risk Report to Audit Committee is one of many integrated and ongoing streams of work undertaken by the organization to identify and appropriately manage risk. Work is completed at the operational management level, by departmental leader teams and by the Administrative Leadership Team, with the most strategic information about risks and the IRM process brought to Audit Committee.

Some of the key IRM activities are that:

- Each department has identified risks to achieving their business plan goals as part of the business planning process. Risk management strategies were then built into the plans and budgets. These risks were then reviewed again in 2016 concurrently with the work

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completed on the Mid-Cycle Adjustments. In a majority of cases, responsibility for ongoing monitoring and management of these risks lies within departmental management.

- Integrating departmental risk registers, and the Administration Leadership Team's (ALT) strategic risk identification, fifteen (15) Principal Corporate Risks were identified (see Attachment) and confirmed by ALT. Each of the Principal Corporate risks is owned by a member of the ALT.
- Information on the Principal Risks is disseminated to relevant stakeholders in the organization to enhance understanding and awareness of the Principal Corporate Risks.
- The Chief Financial Officer's Department (CFOD) has employed a pragmatic approach to identifying, prioritizing and managing risk. IRM continues to build on its strong foundation in established practices to advance the maturity of the IRM Program. For example, Administration will continue to leverage and enhance IRM's connection to the business planning process and to other management practices such as performance measurement and service reviews. Additional information on The City's IRM practices can be found in the 2016 July 21 IRM Model Update report to Audit Committee (AC2016-0503). An update on these practices, including advancements, will be presented to Audit Committee on 2017 July 27.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

The Attachment provides a summary of The City's Principal Corporate Risks. The Principal Corporate Risks were identified using a combined bottom-up, top-down approach to risk management.

- First, using a bottom-up approach, risks were identified at the project and business unit levels in the organization. Through a coordinated "corporate risk register process," completed in conjunction with the business planning process, the business unit and project risks are aggregated and prioritized at a departmental level. This in-depth process requires the engagement of Managers, Directors and General Managers at The City. Departmental risk registers are submitted to Integrated Risk Management staff in the CFOD for analysis and synthesis twice a year.
- Second, using a top-down approach, the Administrative Leadership Team was engaged in an extensive process to identify the Principal Corporate Risks associated with the Leadership Strategic Plan (LSP).
- Third, integrated risk management best practices were also considered in determining the final form and content of the Principal Corporate Risks.

Risk management is viewed as central to the organization's management processes so that risks are considered in terms of effect of uncertainty on objectives. Risks are assessed and managed from both threats and opportunities perspectives. Risk management resources are aligned to the areas of highest risk or significant opportunity. The continuous process of

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identifying, assessing, managing and communicating our Principal Corporate Risks (see Diagram 1) allows Administration, Audit Committee and Council's decisions to be informed by current and relevant risk insight.

Diagram 1



Principal Corporate Risks

The format of the Principal Corporate Risks as shown in the Attachment has been established to:

- Incorporate IRM best practices,
- Support ongoing improvement in risk identification,
- Incorporate feedback from stakeholders,
- Support alignment between the Principal Corporate Risks and the strategic direction of The City.

The Principal Corporate Risks are organized around broad and enduring categories (some of which are standard among large organizations); shorter term priorities such as the Leadership Strategic Plan are referenced but are not the primary basis for organizing risk information.

The Principal Corporate Risks and Descriptions, shown below in alphabetical order are explored in greater depth, including risk rating, trend and risk management strategy in the confidential Attachment.

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- **Business continuity:** Critical systems and/or service interruptions due to natural disaster or man-made event.
- **Capacity for change*:** Increasing velocity, pace and quantity of change, combined with limited flexibility in the organization; contributes to reduced capacity, preparation and experience required to implement new initiatives and adapt to changing processes.
- **Economic & social impact risk:** Ongoing pressures from the regional economic downturn are creating increased demand for social supports. This has an impact on both The City and its partners, operations and service delivery.
- **Environmental risk:** Greater and more frequent severe weather could lead to natural disasters and/or disruptions to service performance.
- **Financial risk:** Lower general revenues and/or higher expenses than budgeted negatively impacts service delivery, tax rates and our ability to adapt to growth.
- **Growth risk*:** Population growth volatility presents challenges in meeting and balancing citizen expectations, long-term capital plans, service delivery goals, and Municipal Development Plan, Calgary Transportation Plan and financial targets.
- **Health & safety risk:** Potential harm to City employees and contractors.
- **Infrastructure management:** Limited resources to support new and existing infrastructure results in deterioration of existing facilities, reliability safety issues and inability to meet the needs of a growing city.
- **Legal & compliance risk:** The Law Department provides legal, governance, risk management, security and issues management advice. 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.
- **Operations, process risk:** Failure to ensure appropriate processes are in place to manage the complexity of operations.
- **Partnership risk:** Counterparty risk arising from City partners unable to deliver services.
- **Political risk*:** Changing priorities and/or competing interests of municipal government, paired with a rapidly evolving and dynamic environment, may result in the inability to deliver on citizen expectations.

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- **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.
- **Talent Management & Workforce Planning Vulnerability (former title: "People Risk"):** Inability to attract, develop, engage or retain key talent and knowledge in order to meet current and future business needs.
- **Technology, security risk*:** 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.

(*definition has been refined from AC2016-0074)

Stakeholder Engagement, Research and Communication

Administration is continuously seeking opportunities to advance the proactive use of risk related information to address risks that may affect or contribute to The City's ability to achieve its objectives. In addition to regularly reviewing leading practices, internal stakeholder input is used to continuously improve established practices. Completion of the risk register process requires a coordinated series of meetings between the departmental business planners, business units, Directors and Managers. Information on the Principal Corporate Risks will be reviewed for confidentiality and, as appropriate, communicated back to departments in order to increase awareness of organization-wide risks and to help ensure that department leaders and staff can play an appropriate role in monitoring and mitigation.

Strategic Alignment

The Principal Corporate Risks identified may affect the achievement of Council's Priorities, Action Plan and the goals of the Leadership Strategic Plan, over the course of the 2015-2018 business cycle. Effective risk management will help to reduce the likelihood and/or the impact of these.

On 2014 September 15, Council approved the Leadership Strategic Plan (LSP) (C2014-0703) which includes the implementation of the Performance Management System, comprising the following five components:

- Performance Measurement & Accountability
- Service Plans and Budgets
- Service Review & Improvement
- Integrated Risk Management
- Individual Performance Development

This system is a disciplined approach to continuous improvement that is designed to increase the organization's capacity, connect work across the organization, inform decision-making and improve the achievement of the organization's results – all with the goal of better serving our

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citizens. The components of the system are mutually reinforcing and have gained increasing traction within our organization. Using the success of these components as tangible anchors, The City is now realizing the aggregate benefits of this system. Table 1, below, shows the specific contribution of Integrated Risk Management

Table 1

Benefits of the Performance Management System	
Benefit	IRM Example
Supports a citizen focus	IRM provides processes which promote the safety and effectiveness of service delivery to citizens including, the ongoing consultation with business units for risk-based decision making.
Helps the achievement of results	IRM provides a framework and tools to proactively identify, assess and manage the risks to achieving our corporate results through the top-down and bottom-up risk management processes.
Supports decision making	IRM allows The City to strategize for downside risk and untapped opportunities by coordinating risk evaluation updates with the business plan and budget adjustment process.
Develops organizational capacity	IRM ensures risk is managed cross-corporately to allow resources to be assigned using a coordinated approach, including through the application of the Principal Corporate Risk Owners.
Connects our work cross-corporately	IRM provides risk management tools and processes (such as the Principal Corporate Risks) which help The City transcend silos and consider risk holistically, instead of by department.

Social, Environmental, Economic (External)

Effective risk management will help to ensure The City's ongoing resilience and ability to serve citizens in accordance with The City's strategic goals. These include, in particular, the social, environmental and economic goals expressed in the Council Priorities for the next three years.

Financial Capacity

Current and Future Operating Budget:

The risk management strategies identified in the Attachment can be accomplished within the approved 2015-2018 operating budgets. The measures will also help to preserve the stability of The City's future operating revenues and expenses.

Current and Future Capital Budget:

As with the comment on the operating budget, above, the risk management strategies identified in the Attachment can be accomplished within the approved 2015-2018 capital budgets. As well, the measures will help to preserve the stability of future capital budgets.

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Risk Assessment

The IRM process provides a method for Council and Administration to identify, assess, manage and communicate risk related to the achievement of objectives. The process is not intended to eliminate or reduce all risk to its lowest possible form; instead it promotes methods for managing risk and opportunity efficiently and effectively; balancing the cost and benefits of risk avoidance, risk mitigation, risk acceptance, risk sharing and opportunity management.

REASON(S) FOR RECOMMENDATION(S):

This report is provided to Audit Committee in order to support the Committee in its role to oversee the process of risk identification, analysis and management procedures to manage risk, by providing up-to-date information on the risk management and mitigation work that Administration has done, and the results of that work. Further, it is recommended that the Principal Corporate Risk Summary (Attachment) be reviewed and discussed in-camera in order to achieve a balance of comprehensive reporting and discussion of the principal risks facing The City, while protecting the interests of the organization from unintended harm.

ATTACHMENT(S)

Principal Corporate Risk Summary