

The City's Risk Profile at Year-end 2020

The City's risk profile shows the effects of operating within a heightened risk environment. This Attachment updates The City's risk profile following the 2020 year-end cross-corporate review.

The update consists of five parts:

- Part 1: Context, Systemic Risk and The City's Response
- Part 2: Principal Corporate Risk Ratings
- Part 3: Five Priority Risks
- Part 4: Capital Risks
- Part 5: Critical Uncertainties
- Appendix 1: The City's Risk Matrix

Part 1: Context, Systemic Risk, and The City's Response

In 2020, The City experienced a heightened degree of volatility and risk exposure. This was due to two significant systemic risks (external risks that have a large impact on multiple sectors at the same time) materializing simultaneously in the form of an economic shock and the global pandemic. These are long-tail risk events, and the impact will continue to be felt into 2021 and beyond.

There are two areas of risk facing The City. The first is that the organization may be required to reduce service levels due to external and internal pressures. The second area of risk is whether the organization will be able to meet expectations as to what The City can do to contribute to Calgary's economic recovery, as some of those expectations would require tools and levers that are broader than those The City of Calgary currently has at its disposal to address them.

Responding to systemic risks compelled the organization to test its existing risk controls and to try new ways of doing things. The organization is also changing to adopt a new organizational structure and strategic direction, as outlined in the Rethink to Thrive Strategy.

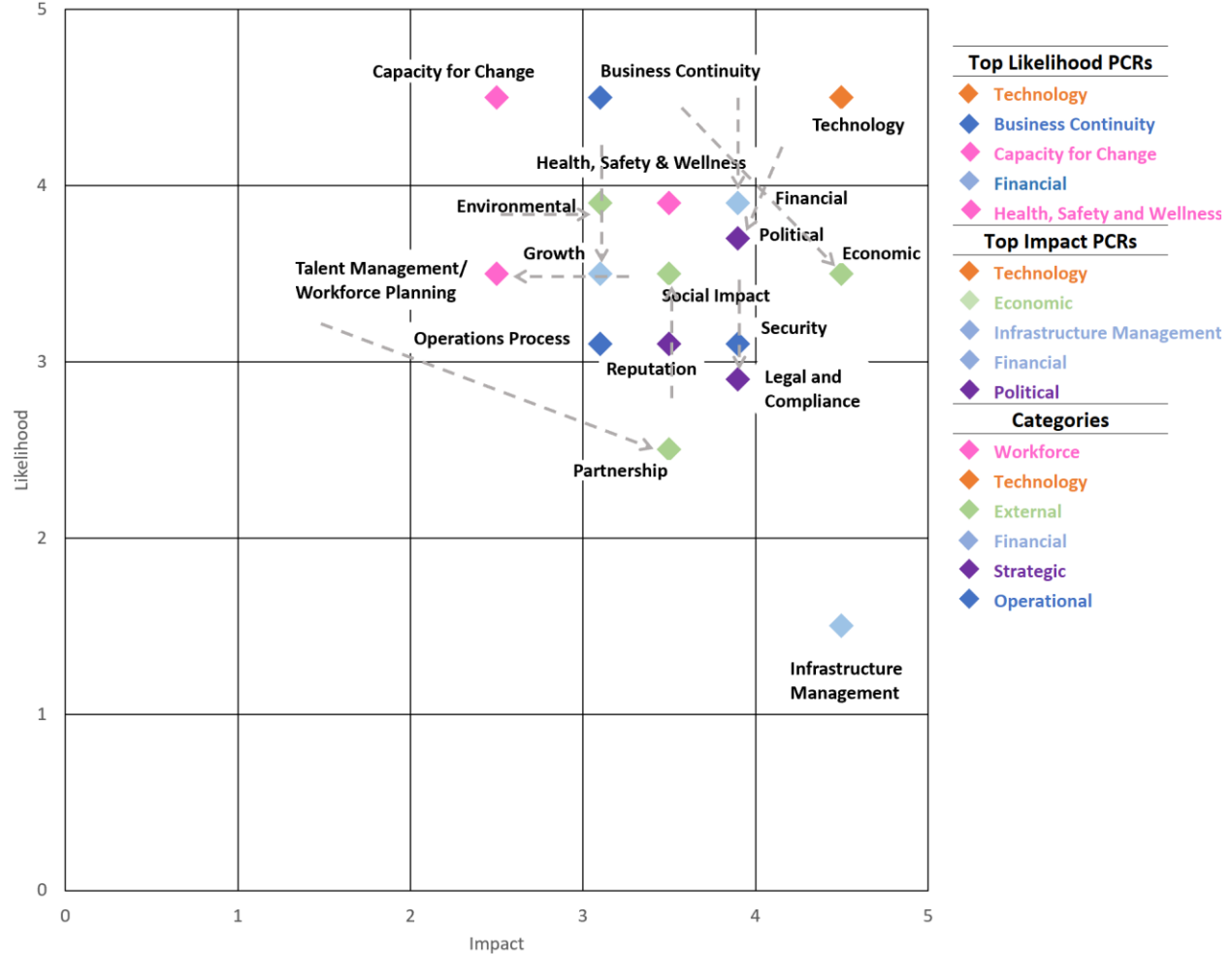
The City's Mid-Cycle Adjustments and the SAVE program presented cost savings, efficiencies, and a modernizing of municipal government to leverage the organization's capacity to offset tax burdens on its citizens and to create a culture of innovation and judicious risk taking. The Integrated Risk Management (IRM) team is, and will continue to be, working with other risk functions throughout the organization to facilitate these, and other, risk response strategies.

Finally, responding to risk has necessitated our organization to seek new approaches in uncertain times to ensure The City's ability to achieve its results and deliver services to citizens. This new approach includes advancing the Strategic Foresight Road Map, including critical uncertainties and scenario development. One such critical uncertainty is increasing social unrest. There is the potential for trends related to disenchantment with government, unemployment (particularly of youth/young adults), and education rates to develop into an emerging risk that could manifest into significant disruptions of government operations. In the face of such challenges, the IRM team and our partners are adopting practices to support short, medium, and long-term planning to ensure that our organization remains resilient and prepared in the event of more shocks and stressors.

Part 2: Principal Corporate Risk Ratings

Figure 1 below illustrates The City’s Principal Corporate Risk (PCR) ratings as of 2020 year-end. The grey arrows demonstrate risks that have moved from their 2020 mid-year risk ratings.

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.

Since the 2020 mid-year Principal Corporate Risk report to the Audit Committee, nine PCRs have changed their risk rating as shown in the table below. The updates reflect information provided by subject matter experts, as well as new sources of risk information made available to the IRM team such as brief questionnaires, reviews of key risk indicators and measures, as well as scenario planning submissions related to COVID-19 and The City’s response strategies.

PCR	Rating Change	Justification
Economic Risk	Likelihood decreased And Impact increased	The prolonged, sustained exposure to this risk that we experienced in 2020 indicates a more significant impact. Calgary is likely to experience a K-shaped recovery which occurs when the economy recovers at an uneven rate among sectors. Further, office vacancy rates and unemployment levels may continue to rise.
Environmental Risk	Impact increased	Climate risk is increasing globally, including Calgary. Nationally, the Insurance Bureau of Canada has seen payouts from extreme weather more than double every five to ten years, recently in Calgary we have seen this trend locally as well. Preparing to respond to the risks of climate change will require immediate and long-term efforts from the organization.
Financial Risk	Likelihood decreased	The City continues to face uncertainty when it comes to financial risk, though steps taken in 2020 should allow the organization to be in a position to continue to face stressors into 2021.
Growth Risk	Likelihood decreased	There are inherent revenue and cost risks associated with growth. Should growth be lower or higher than anticipated, impacts to The City's finances and to service delivery are possible, and in 2020 we saw a high degree of volatility in growth. The City has adopted a monitor, communicate, act risk response plan to manage this risk.
Legal Risk	Likelihood decreased	This risk has decreased due to the implementation of effective risk response strategies.
Partnership Risk	Rating change from Medium to High	There is an increased strain on our partnerships due to COVID-19, particularly on funding and fundraising, and on financial reserves.
Political Risk	Rating change from Severe to High	Debt incurred by federal and provincial orders of government may lead to sustained impact on municipal governments (including Calgary). At the regional level the competition between neighbouring municipalities has increased. When responding to this risk, it is difficult to balance the need for proactive and reactive measures.
Social Impact Risk	Likelihood increased	Due to COVID-19 and the economic downturn coupled with a slow recovery, more Calgarians who are experiencing vulnerability rely on our ability to provide social programs and support.
Talent Management and Workforce Planning Risk	Impact decreased	Certain areas in the organization face acute challenges related to this risk. Yet, overall, The City is able to attract talent, while retention and satisfaction rates remain relatively stable over the past year.

Part 3: Five Priority Risks

The five priority risks are determined based on the following criteria:

- Expected increase in pressure on this risk.
- Required focus and attention on risk controls or responses.
- Required cross-corporate effort to effectively manage.

After applying these criteria, The City has updated its list of five priority risks.

<p>On 2020 June 25, the ELT approved these Five Priority Risks:</p> <ul style="list-style-type: none"> • Economic Risk • Financial Risk • Health, Safety and Wellness Risk • Reputation Risk • Infrastructure Management Risk 	<p>On 2020 December 8, the ELT approved these Five Priority Risks:</p> <ul style="list-style-type: none"> • Economic Risk • Financial Risk • Health, Safety, and Wellness Risk • Reputation Risk • Social Impact Risk
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While Infrastructure Management is one of the top risks to the organization in terms of impact, and we should continue to monitor and to manage closely, key controls are in place and there is clear direction on how to manage this risk going forward. The Social Impact Risk is more critical at this time. It has risen in terms of its overall rating which is an indication that there are increasing pressures and stressors on this risk. While this risk is currently well managed and monitored, the organization may need to adjust its response strategies as this risk is dynamic, and the context in which we operate is quickly changing. Analysis of this risk is included below.

The City continues to experience significant exposure in the five priority risks. The IRM team held sessions with subject matter experts on each of these risks to discuss current performance measures, indicators, and response strategies and will continue to work with stakeholders to support proactive risk management practices.

Economic Risk: from shock to recovery

The economic risk is related to a second wave of COVID-19 in Calgary. This necessitates renewed restrictions and business closures which may inflict serious harm to an already weakened local economy. Additionally, because of COVID-19, Calgary is likely to experience a K-shaped recovery which occurs when the economy recovers at an uneven rate. Some sectors of the economy will experience positive outcomes while other sectors continue to suffer decline (in Calgary stressed sectors are: tourism, hospitality, entertainment, oil and gas, and commercial real estate).

Also, as many downtown businesses have shifted to remote work, downtown service providers and building operators will continue to experience a decline in demand and lost revenues. Office vacancy rates and unemployment levels will remain a concern. Coupled with a prolonged collapse in business and tourism travel, the extreme risk is that Calgary’s downtown will become increasingly less attractive, as a place to work, live, or visit.

In response

The City has taken a number of steps to address this risk. Key highlights of this work are:

- Establishment of an Economic Resilience Task Force to mitigate this risk.

- Implementation in 2021 and 2022 of the Administration's response to the recommendations of the Financial Task Force.
- Continuing to implement the "Business Friendly" strategy to improve City services in support of local businesses.
- The City Manager is implementing the "Rethink to Thrive" strategy which focuses on enhancing collaboration and innovation that modernizes city processes that increases The City's capacity to deliver services to residents, reduce costs and improve the reputation of municipal government.

Financial Risk: managing finances through volatility

In 2020, The City of Calgary had a high level of risk due to funding constraints on both the operating and capital fronts. For operating, this included non-property tax revenue failing to keep up with the pace of inflation, and for capital, this included Provincial delays or cuts to capital funding transfers to The City.

Additional funding and financing constraints have emerged, mostly attributable to the onset of the COVID-19 pandemic for 2020. For 2021, The City is monitoring the risk of higher levels of non-payment of municipal taxes, decline in non-property tax revenue sources and the cost of service delivery during response and recovery.

In response

To address the heightened financial risk, City Administration has implemented five tactics to narrow the gap due to lower revenues and higher expenses. They are:

1. Implemented service changes to meet the changing needs of Calgarians.
2. Found and implemented efficiencies for the organization.
3. Enacted a hiring freeze and review process for unfilled vacancies.
4. Enabled further use of reserves.
5. Adjusted capital programs.
6. Applying for grant funding as it is made available by other orders of government.

Health, Safety, and Wellness Risk: focusing on the physical and mental health of our people

The organization will continue to face challenges related to health, safety, and wellness risks. There are internal and external pressures on employees which may negatively affect employee mental health and resilience over time. This includes exposure to COVID-19 or to stressors related to having a large portion of the workforce working from home.

As a result of several important strategies and tactics that were initiated in 2020 and are continuing to be implemented to protect employee physical and psychological safety, safety performance has improved this year over the previous year. However, it may take time to achieve sustained, long-term positive results on health, safety and wellness performance.

In response

In order to manage this risk, The City is:

- Enhancing the Occupational Health and Safety Management System and Corporate Safety Strategy and continuing to implement the Healthy Workplace Strategy.

- Implementing specific initiatives to improve safety performance including: mandatory health, safety and wellness training for all City leaders; traffic safety; employees' right to refuse unsafe work; and an internal safety auditing program.
- Responding to COVID-19 with respect to the health, safety and wellness of City employees. This includes building employee resilience and creating physically and psychologically safe work environments in these challenging times.

Furthermore, a psychological safety governance working group has been formed to coordinate support to employees and The City regarding accountability and responsibilities pertaining to psychological safety.

Reputation Risk: telling our story to promote citizen trust and confidence

A positive reputation for The City is a catalyst for delivering services, engaging citizens and partners, and working collaboratively with other orders of government. As a municipal government, the organization faces a high degree of public scrutiny, and any of our activities have the potential to influence this risk.

We regularly monitor and measure this risk through the Citizen Satisfaction Survey. Citizen trust and satisfaction has declined for both Council and Administration in the fall of 2020, though not by a large margin. All reputation measures monitored by The City have likely been negatively impacted by the economic recovery as citizen trust and confidence in government is often stressed during difficult economic times. Further, The City continues to face public scrutiny related to the property tax shift, reductions in City services, and other contentious City investment decisions.

In response

Managing The City's reputation relies on the entire organization, as exemplified in our shared values, individual responsibility and collective accountability. To manage this risk, the organization will:

- Continue to educate, inform and speak with One Voice in response to COVID-19 as well as ensure communication are aligned and updated.
- Support City initiatives and committees tied to economic recovery by elevating and amplifying messaging regarding The City being open, transparent and business friendly (e.g. Downtown Strategy, Event Centre, Green Line, Arts Commons revitalization).
- Renew focus on telling our 'story' of high-quality, affordable services and correcting misinformation to communicate the value for taxes, strengthening trust.
- Create and sustain partnerships within the organization to improve the service planning and budgeting process by leveraging citizen perspectives and insights.

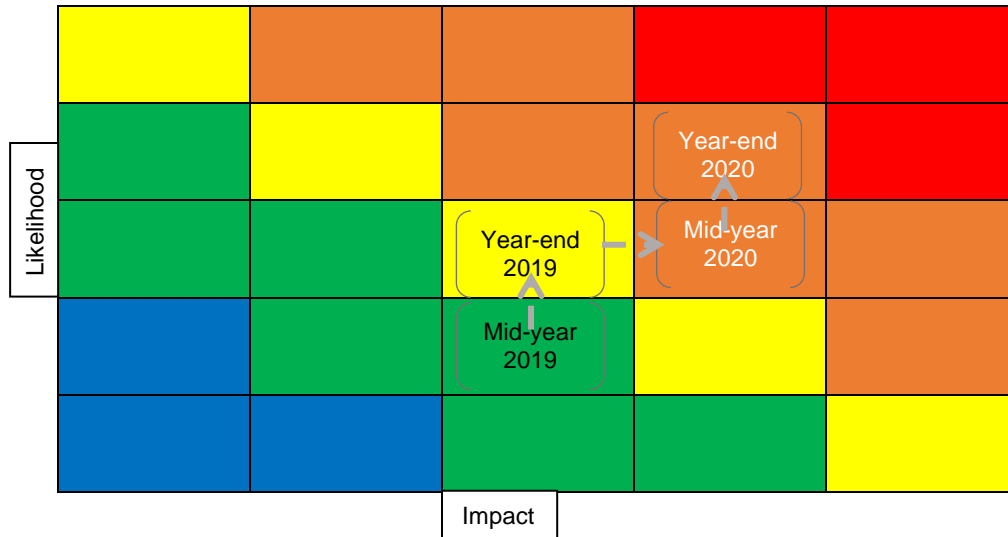
Going forward, it is recommended that we seek greater clarity about how The City defines and measures reputation.

Social Impact Risk: sustained, increased stressors lead to high risk exposure

The Social Impact Risk has increased its risk rating in every cross-corporate risk review since mid-year 2019 (Figure 2 below). Calgary's social and economic conditions are changing, which has contributed to social unrest. The City's ability to respond is under pressure, as it requires

shared responsibility between other orders of government and key community partnerships. This risk, as it materializes, has a negative impact on the well-being of citizens.

Figure 2: Social Impact Risk Rating Changes



In response

The City is currently focusing on three main strategies to address the Social Impact Risk. They are:

- Use existing partnerships with the nonprofit sector, community groups and advisory committees to understand emerging needs and gaps, and then mitigate risk through collaboration, coordination, and collective action (including advocacy strategies with other orders of government).
- Maintain accountability and reporting protocols to measure impact of funds dispersed, and/or programs and services delivered.
- Monitor number of applicants to Fair Entry; and other social programs, including waitlists.

Part 4: Capital Risks

Related to The City’s capital projects, The City is facing a volatile situation. While the COVID-19 pandemic is a disruptive event, The City remains optimistic about its ability to deliver its capital portfolio approved in the One Calgary Service Plans and Budgets. While some challenges remain (i.e. contractual, access to human capital, access to materials), The City is working to address these to maintain minimal impact on project delivery.

Infrastructure Calgary is monitoring the risks, issues, impacts and status of capital investments as a result of the COVID-19 pandemic and is working with services that deliver capital investments to support risk mitigation and advance projects where possible. The City continues to work with industry partners to maintain construction as an essential service and keep Calgarians working safely through the pandemic.

Part 5: Critical Uncertainties

To complete The City’s risk profile, we have revisited the mid-year listing of critical uncertainties facing the community and organization. Critical uncertainties are a key component of strategic foresight, a scenario planning tool that was introduced to the ELT during the first wave of the pandemic to foster a new way of thinking during highly uncertain times. Identifying critical uncertainties is part of the strategic foresight process which seeks to build plausible futures, test assumptions and ultimately reduce the chance of being caught by surprise. Our analysis at year-end shows that many of the critical uncertainties identified at mid-year proved relevant, experienced changes and are worth monitoring. Many of the critical uncertainties listed have been factored into our short-term actions and risk response strategies and are being used to develop scenarios as part of the Strategic Foresight Road Map (Figure 3 below).

Critical uncertainties are realities that are unstable or unpredictable and are important to understand to plan and inform decision-making in the short, medium and long term.

The chart below assesses the initial listing of critical uncertainties at 2020 year-end and describes the impact on The City in the short, medium and long-term.

Assessing Critical Uncertainties at year-end:

Critical Uncertainties	Assessment and impact on The City
<p><i>A city of safe and inspiring neighborhoods</i></p> <ul style="list-style-type: none"> • Increasing social unrest and protests • Less physical togetherness and fewer community gatherings • Social inequalities and impacts on vulnerable populations • The role of partnerships: including Civic Partners, other governments, post-secondary, The City and the private sector. 	<p>At year end, these critical uncertainties have been factored into the short-term actions and risk response strategies for The City’s Social Impact Risk. The role of partnerships forms part of future scenarios to develop insights and priority actions over the medium term (next business planning cycle) and the long term (10 years).</p>
<p><i>A healthy and green city</i></p> <ul style="list-style-type: none"> • Current and future mental health impacts • Change in philosophy about health and how we recreate • Personal hygiene norms and expectations • Health and science-based decision making • Increased demand for open spaces • Continued support for climate change strategies 	<p>The year-end review reflects that health critical uncertainties are incorporated within the Health, Safety and Wellness Risk and Social Impact Risk. The year-end assessment of the increasing demand for open spaces requires further review especially over the long-term. At year-end, renewed support for climate change strategies is re-gaining momentum both globally and locally. The medium and long-term impacts will form part of the scenarios. Other emerging risks may be identified.</p>

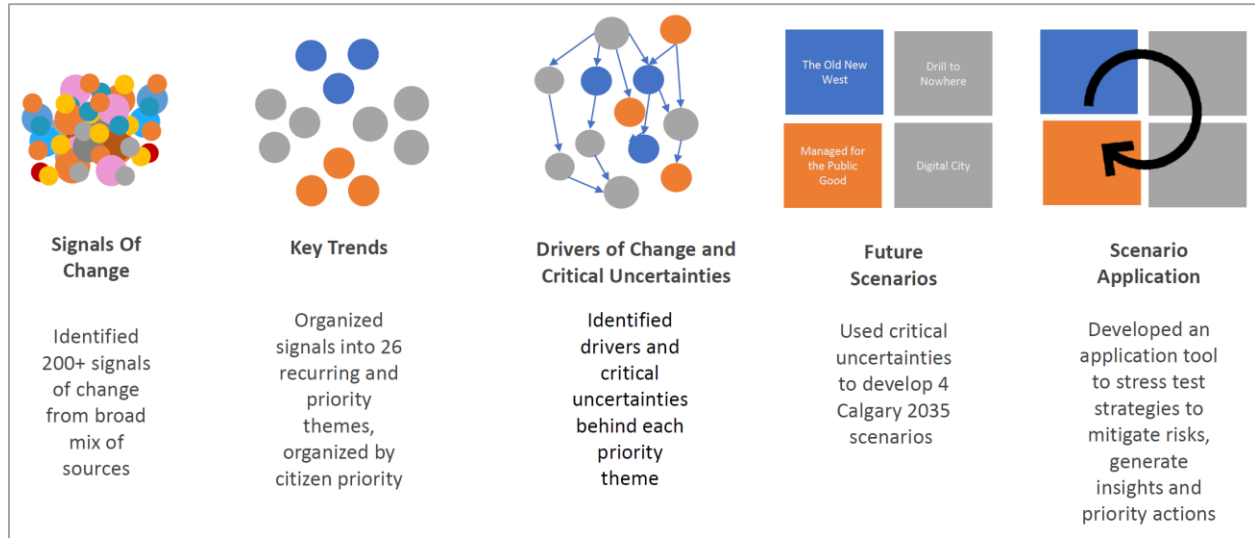
Critical Uncertainties	Assessment and impact on The City
<p><i>A city that moves</i></p> <ul style="list-style-type: none"> • Transit ridership, the way we move and interact • Transportation hubs and measures to promote public health, screening, and proximity • Protecting essential workers and those working outside of the home who use transit • Increased cycling and pedestrian traffic 	<p>The critical uncertainties related to <i>a city that moves</i> are reflected in the Transportation Department’s Future of Transportation: COVID Recovery Summary Report (TT2020-1120). Specific actions are being implemented and scenarios are informing strategic and long-term plans for Transportation, urban form and goods movement.</p>
<p><i>A prosperous city</i></p> <ul style="list-style-type: none"> • Changing business models • Vacancies in downtown buildings • Future development investment • Changing commuter habits and consumer behaviours 	<p>At year end, some of the economic uncertainties such as vacancies in the downtown core and consumer behaviours have materialized and are reflected in the risk response strategies. Future development investment requires more analysis for consideration in scenarios. Changing commuter and consumer behaviours are included in future scenarios.</p>
<p><i>A well-run city</i></p> <ul style="list-style-type: none"> • Employer responsibilities and employee rights • Property tax system stability and changing revenue sources • Working from home • User fee levels required for services • More technology – online services 	<p>At year end, property tax changes, working from home and online services are incorporated into response strategies, next cycle, and long-term planning. Conversations and analysis are required to inform scenarios.</p>

Using Critical Uncertainties going forward

Since April 2020, a group of cross-corporate representatives called the Scan Club has met regularly to discuss COVID-19 changes to our city and community. The purpose of the discussions was to identify any changes that have the potential to impact the future of Calgary in the next 18 months to 10 years, to identify potential high-level actions to manage the risks and to build strategic foresight capacity within our organization.

As shown on the Strategic Foresight Road Map below, the process has resulted in the identification of over 200 signals of change, key trends, drivers of change and critical uncertainties. These have been used to develop exploratory, plausible future scenarios and a scenario application tool. These will be made available to the organization to inform recovery efforts, short, medium and long-term planning including the evaluation of existing planning strategies such as the Municipal Development Plan (MDP) and the Calgary Transportation Plan (CTP).

Figure 3: Strategic Foresight Road Map



This new way of thinking and the use of strategic foresight and scenario planning supports next cycle planning and aligns with our Rethink to Thrive Strategy, Administration’s blueprint for building a stronger organization, and The City’s 2019 Resilient Calgary Strategy which identifies a “Future Focused Calgary”. This work is being supported by the Integrated Risk Management, Resilience Calgary, Transportation, One Calgary and departmental representatives.

Appendix 1: The City’s Risk Matrix

Level		Probability*	Impact				
5 Almost Certain	90% and greater	Medium	High	High	Extensive	Extensive	
4 Likely	65-89%	Low	Medium	High	High	Extensive	
3 Possible	35-64%	Low	Low	Medium	High	High	
2 Unlikely	11-34%	Slight	Low	Low	Medium	High	
1 Rare	10% and less	Slight	Slight	Low	Low	Medium	
		Impact					
		1 Negligible	2 Minor	3 Moderate	4 Significant	5 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.	