

Annual Principal Corporate Risk Report

RECOMMENDATION(S):

That Audit Committee recommends that Council receive Report AC2023-0011 and the presentation for information and discussion pursuant to Audit Committee Bylaw 33M2020, Section 5 (c).

RECOMMENDATION OF THE AUDIT COMMITTEE, 2023 JANUARY 19:

That Council receive Report AC2023-0011 and the presentation for the Corporate Record pursuant to Audit Committee Bylaw 33M2020, Section 5 (c).

HIGHLIGHTS

- Understanding, assessing, and managing risk is critical to achieving the Council's vision of a resilient Calgary. This report provides information on The City's risk profile at year-end 2022 and on the internal and external pressures that could impact The City's ability to meet strategic objectives.
- **What does this mean to Calgarians?** The City's risk environment has generally remained stable through 2022, indicating the effectiveness of our risk response strategies. Three prominent pressures remain: corporate capacity, economic volatility and financial uncertainties.
- **Why does this matter?** The City is responding by taking actions required to address these pressures and manage related risks.
- The visual display of the overall Principal Corporate Risk profile has been enhanced. It now includes a dashboard to summarize the current residual risk rating, progress of risk response, risk trend, risk tolerance/appetite and target residual risk rating for each risk.
- The Risk Maturity Survey results indicate that The City has an overall risk maturity rating of 2.7 (out of 5) with a recommended desired level of at least 4. On 2022 December 12, the Executive Leadership Team (ELT) approved Tier 4 as the organization's desired level of risk maturity. The Audit Committee needs to confirm the desired level of maturity. To advance to the desired level we will focus on developing and embedding a risk governance framework, establishing, and communicating risk appetite and tolerance levels, improving risk reporting and further integrating Enterprise Risk Management into business units and services' operational decision-making processes.
- Background and Previous Council Direction is included in Attachment 1.

DISCUSSION

The City's 2022 Year-End Risk Profile

The Risk Profile in Attachment 2 provides the Audit Committee with an update on the risk environment and an overview of the ratings for The City's Principal Corporate Risks (PCRs). The profile reflects our current understanding of these risks, and the rating reflects the likelihood and impact after the application of existing controls and risk response strategies (the residual risk).

While most of the PCRs have maintained the same risk rating since mid-year, two PCRs have experienced changes in their risk ratings. The Service Delivery and the Social Wellbeing risks' impact ratings have increased while their likelihood ratings have decreased resulting in the

Annual Principal Corporate Risk Report

overall risk rating of “high” remaining the same. The stability of the remaining PCRs reflects the effectiveness of our current risk response strategies.

Three prominent pressures were identified through the bottom-up and top-down analysis of The City’s risks. These pressures include (1) Corporate capacity (2) Economic volatility and (3) Financial uncertainties.

- Corporate capacity – There is a risk related to hiring and retaining talent. As a commonly reported risk, corporate capacity risks impact many PCRs including Service Delivery, Employee Experience & Technical Disruption, Reputation and Social Wellbeing.
- Economic volatility - The City is exposed to pressures related to inflation, cost fluctuations, and the ability to procure materials in a timely fashion. The Calgary Economic Region’s overall economic performance is expected to be resilient in 2023. Calgary is expected to outperform other Canadian jurisdictions in the next 12 months.
- Financial uncertainties - The City has an exposure due to our reliance on external bodies (other orders of government) for funding and as a source of lending. If financial risks materialize, they can impact service delivery.

The new PCR Dashboard on page four summarizes the status of the Principal Corporate Risks. It includes information on the residual risk rating, progress of risk response, risk trend, risk appetite and target risk rating. The Executive Leadership Team (ELT) has committed to work with the Enterprise Risk Management team to determine target residual risk ratings for each risk. This work will begin in early 2023.

ERM Focus Areas for 2023-2026

The primary focus will be to advance the risk maturity of the organization. On 2022 December 12 the ELT approved Tier 4 as the desired level of risk maturity for the organization. In 2023-2026, we aim to focus on four areas to further our progress towards this level of maturity. This will require whole organizational effort to shift the collective culture. Below are some initiatives we will work on this cycle to support these results.

- Risk Governance - Complete the governance framework development, including clearly defined roles and responsibilities, and implement it across the organization.
- Risk Appetite and Tolerance - Take a phased approach to build tools, work with other groups in the organization, and implement change throughout the organization.
- Risk Reporting - Continue to improve consistent and data-driven risk reporting to support the ELT and Council by providing clear, tangible risk information that can be used to support risk-aware decision making at a strategic level.
- ERM Integration - Further integration into Business Units and Services' ongoing operational decision-making processes.

EXTERNAL ENGAGEMENT AND COMMUNICATION

- | | |
|--|---|
| <input type="checkbox"/> Public engagement was undertaken | <input type="checkbox"/> Dialogue with interested parties was undertaken |
| <input type="checkbox"/> Public/interested parties were informed | <input checked="" type="checkbox"/> Public communication or engagement was not required |

During service planning and budget engagement activities, Calgarians stated that they would like The City to take more risks where appropriate. The ELT supported this sentiment by directing that a workplan to advance risk maturity to tier four of the Risk and Insurance Management Society’s (RIMS) risk maturity model be created and brought back for input and approval by Q1 2024.

IMPLICATIONS

Social

Investments in preventive social services help to stop societal issues/problems before they begin; though the increase of food, energy and housing prices impact those living on fixed or low incomes. The City’s social programs, integrated with and support of other service providers, work to address and manage related risk.

Environmental

The City must balance the economic, social and environmental needs of its citizens by ensuring climate-related risks are mitigated and striving to improve the quality of life for Calgarians. Without investment, support, buy-in and collaboration from the private sector and Calgarians, The City may struggle to execute the policies and plans developed in alignment with the Calgary Plan, City Wide Growth Strategy and Calgary Climate Strategy.

Economic

Despite significant local, national, and geopolitical economic uncertainty, the Calgary Economic Region’s overall economic performance is expected to be sufficiently resilient to mitigate the risk of adverse local impacts. In 2022 November, Council approved the 2023-2026 Service Plans & Budgets which support downtown revitalization and the development of local area plans, improve Calgary’s ability for hosting and hospitality, invest in public transit and help strengthen Calgary’s global positioning and reputation.

Service and Financial Implications

No anticipated financial impact

RISK

The 2022 year-end review of The City’s top risks and their interdependencies ensures that these risks, which could present significant potential strategic impacts to the organization, are well managed.

ATTACHMENT(S)

1. Previous Council Direction, Background
2. Year End Risk Profile
3. Enterprise Risk Management Program Update
4. Status of ERM Program Audit Recommendations
5. Presentation – Annual Principal Corporate Risk Update
6. The City Manager’s Principal Corporate Risk Update

Department Circulation

General Manager/Director	Department	Approve/Consult/Inform
Carla Male, Chief Financial Officer	Corporate Planning & Financial Services	Approve

**Corporate Planning and Financial Services Report to
Audit Committee
2023 January 19**

**ISC: UNRESTRICTED
AC2023-0011
Page 4 of 4**

Annual Principal Corporate Risk Report

David Duckworth, City Manager	City Manager's Office	Inform
Chris Arthurs, General Manager	People, Innovation and Collaboration Services	Inform
Katie Black, General Manager	Community Services	Inform
Stuart Dalglish, General Manager	Planning & Development Services	Inform
Jill Floen, City Solicitor	Law, Legislative Services & Security	Inform
Doug Morgan, General Manager	Operational Services	Inform
Michael Thompson, General Manager	Infrastructure Services	Inform