

Risk Appetite and Tolerance Update

As The City continues its journey towards an Advanced level of risk maturity, risk appetite and tolerance will play a key role in getting us there. The Enterprise Risk Management (ERM) team is leading this work using a phased approach to build a solid foundation upon which further risk management advancements can be made. In order to do so, we are focusing on three pillars: alignment to strategy, risk analytics, and risk governance to support risk-based decision making.

Risk appetite and tolerance are important to the organization because:

- They translate our values into measurable results that can be evaluated and adjusted as context changes – we want to take risk in order to achieve what’s important to us, while avoiding negative impacts to the things we want to protect. Risk appetite and tolerance enable more consistent risk taking throughout the organization.
- There are a lot of pressures on the organization right now, and risk appetite is a useful tool to bring information about all the pressures together in a consistent manner. It also supports resilience by being realistic about what kinds of impacts the organization can absorb and preparing for all kinds of risks that come our way.
- It also complements our advancements in the quantification of risk assessments which provides insight into risk trends and effectiveness of risk management strategies.
- Risk can be both positive and negative in terms of the kinds of impacts the organization could experience. Risk appetite plays an important role in weighing risk trade-offs between options or alternate courses of action by providing more structure when making those decisions.
- It is important for decision makers to know the risk capacity of the organization. Risk tolerance helps leaders recognize and agree upon how much risk The City can absorb.

What are risk appetite and tolerance?

The ERM team has developed a risk glossary to ensure consistent and clear understanding of our risk terminology. In it, risk appetite and tolerance are defined as:

Risk Appetite – The level of risk that the organization is willing to accept to achieve its results. The City’s risk appetite scale consists of five levels: averse, minimalist, cautious, open, and motivated.

Risk Tolerance – The amount of risk that the organization can assume without material impact on the achievement of results.

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

In other words, risk appetite is how much risk we, as an organization, are comfortable, and able, to take on. Meanwhile, risk tolerance is broader, it is the level of risk that we could take on without significantly impacting our ability to deliver services and achieve other critical results.

Measuring risk appetite and tolerance

Risk analysis always utilizes a mix of both quantitative and qualitative assessments. It is critical to have good metrics and evidence-based support for decision making. However, interpreting and applying this information is always needed. Further, some risks are inherently more quantifiable than others. For

example, the cost of repairing or replacing an asset might be easily calculated, but how important that asset is to you in the first place may be a qualitative judgement.

Effective use of risk appetite and tolerance to improve decision-making requires a solid understanding of the opportunities, costs, benefits, and impacts of risk events, as well as an agreed upon framework of what is most important to an organization.

This blend of risk quantitative and qualitative assessment is present in the three pillars the ERM team is focusing on for risk appetite and tolerance.

1. Strategy defines our goals as an organization. It delineates why we want to take risk and helps identify which risks are important to us.
2. Risk analytics ensure we have the right information and are using evidence to support our decision making. It measures and monitors how closely our risk exposure and performance aligns to our risk appetite.
3. Risk governance is where the first two pillars meet. Risk analytics inform decision makers who align their actions to The City's strategies.

Risk appetite and tolerance then, is guided by strategy, informed by analytics, and applied through the mechanisms of governance.



What we're working on and what's next

The table below provides an overview of where we're at with respect to risk appetite and tolerance as it relates each of these pillars:

<i>Pillar</i>	<i>What we've done so far</i>	<i>What's next</i>
<i>Strategic Alignment</i>	<ul style="list-style-type: none"> Engagement with ELT on risk trade-offs. Integration of risk appetite and tolerance into service risk register submissions. Integration of risk appetite and tolerance for Principal Corporate Risks Supporting risk taking and risk reduction strategies for projects. 	<ul style="list-style-type: none"> Further engagement with ELT and Audit Committee on defining risk appetite and tolerance for the organization. Incorporate risk appetite and tolerance levels into strategic decision-making processes. Apply risk appetite and tolerance concepts to other risk strategies such as strategic foresight.
<i>Risk Governance</i>	<ul style="list-style-type: none"> ERM Glossary with definitions of risk terms, including risk appetite and tolerance. Draft risk escalation guidelines for leaders in the organization. Risk consulting on establishing risk appetite and tolerance levels. 	<ul style="list-style-type: none"> Complete pilot and incorporate feedback on escalation guidelines. Broaden application of risk communication and escalation to more areas of the organization. Update City's risk policy to reflect new developments.
<i>Risk Analytics</i>	<ul style="list-style-type: none"> Key Risk Metrics are documented and tracked at least twice per year for the PCRs. Demonstrated the interconnections of risk. Preliminary analysis on risk appetite and tolerance based on analysis of bottom-up risk information from our corporate risk review. 	<ul style="list-style-type: none"> Apply appetite and tolerance to key risk metrics in how we monitor and respond to The City's top risks. Building new risk tools to support risk-based decision making, including applying risk appetite and tolerance at different levels of the organization.

What does this mean for Audit Committee?

As The City progresses towards an Advanced level of risk maturity, the Audit Committee plays a crucial role in providing the oversight to ensure that risk management practices are aligned with The City's strategic objectives and that risk-taking activities remain within acceptable levels.

Specifically, the Audit Committee will:

- **Review and challenge:** Regularly review and challenge the organization's risk appetite and tolerance statements to ensure they remain relevant and appropriate.
- **Assess reporting:** Evaluate risk reporting to ensure it provides clear insights into The City's risk profile and adherence to risk appetite and tolerance levels.
- **Provide independent assurance:** Offer independent assurance to the Council that risk management practices are robust and aligned with The City's strategic goals.

By actively engaging in these activities, the Audit Committee will contribute significantly to The City's ability to manage risk effectively, make informed decisions, and achieve its objectives while safeguarding its assets and reputation.