

Corporate Planning & Financial Services Report to
Audit Committee
2024 October 17

ISC: UNRESTRICTED
AC2024-0972

Corporate Risk Appetite and Tolerance Update

PURPOSE

The purpose of this report is to update the Audit Committee on the progress of The City's risk appetite and tolerance initiatives. Risk appetite and tolerance levels are a standard, and critical component of aligning risk management with an organization's strategic goals. Risk appetite and tolerance will also support effective decision-making across the organization.

PREVIOUS COUNCIL DIRECTION

The Audit Committee's 2024 Work Plan, approved on 2023 December 14, directed the Enterprise Risk Management (ERM) team to report on work related to risk appetite and tolerance as part of the broader initiative to achieve an Advanced (Tier 4) level of risk maturity. This report follows up on that directive.

RECOMMENDATION(S):

That the Audit Committee recommend that Council:

1. Receive this report and presentation for information and the Corporate Record.
2. Direct that Attachment 3 remain confidential pursuant to Section 24 (Advice from officials) of the *Freedom of Information and Protection of Privacy Act*, to be reviewed by 2029 October 17.

RECOMMENDATION OF THE AUDIT COMMITTEE, 2024 OCTOBER 17:

That Council:

1. Receive this report and presentation for the Corporate Record; and
2. Direct that Attachment 3 be held confidential pursuant to Section 24 (Advice from officials) of the *Freedom of Information and Protection of Privacy Act*, to be reviewed by 2029 October 17.

CHIEF ADMINISTRATIVE OFFICER/GENERAL MANAGER COMMENTS

The Chief Financial Officer and General Manager of Corporate Planning and Financial Services concurs with this report.

HIGHLIGHTS

- Risk appetite and tolerance are critical for The City's ability to manage risks effectively while aligning with strategic goals.
- They ensure consistent and appropriate risk-taking behaviours across the organization and help decision-makers evaluate the trade-offs between risks and opportunities.
- Progress has been made in key areas such as strategic alignment, risk analytics, and risk governance to better support risk-based decision making.

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- While progress has been made, further work is needed including engagement with the Executive Leadership Team (ELT), the Audit Committee, and Council to define organizational risk appetite and tolerance levels.

DISCUSSION

As The City progresses towards an Advanced level of risk maturity, risk appetite and tolerance will continue to play a key role in aligning risk-taking behaviours with The City's strategic objectives. Risk appetite and tolerance is a means to provide enterprise-wide understanding and to document how much risk an organization should take in pursuing its desired results. This framework will provide a structured approach to:

- **Setting clear expectations:** Council and Administration will work tougher to articulate risk appetite levels, which will guide Administration's appropriate operational processes and policies.
- **Guiding decision-making:** The framework provides a clear and consistent approach to evaluating potential risks and rewards. This enables informed decision-making that supports the City's strategic objectives.
- **Promoting consistency:** Risk appetite and tolerance decisions will cascade throughout the organization as it fosters consistent management of risks at different levels, in different operational areas. It will also continue to evolve as part of the broader top-down, bottom-up risk program established at The City.

While risk appetite defines how much risk The City is willing to take to achieve its goals, risk tolerance defines the level of risk that can be absorbed without materially impacting the achievement of those goals. Together, risk appetite and tolerance help decision-makers weigh risk trade-offs and supports consistent management of risks throughout the organization.

The ERM team has made significant progress across three pillars:

1. **Strategic Alignment:** Risk appetite and tolerance are integrated into service planning and major projects. Further engagements with the Executive Leadership Team (ELT) and Audit Committee will continue.
2. **Risk Analytics:** Key Risk Metrics are being developed to track and monitor The City's risk exposure in relation to its strategic objectives. Further work will focus on applying these metrics and building new tools.
3. **Risk Governance:** Pilot projects have refined risk escalation processes and developed guidelines for risk communication. Broader application across the organization is planned.

Upcoming work includes further refinement of risk appetite and tolerance levels, broader application to governance frameworks, and ongoing reporting to the Audit Committee.

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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 |

IMPLICATIONS

Social

Risk appetite and tolerance reflects The City's commitment to protecting the well-being of Calgarians. By incorporating social impacts into decision-making, these frameworks ensure that risk management aligns with the community's values and priorities.

Environmental

By establishing clear risk appetite and tolerance levels, The City can proactively identify and manage climate-related and environmental risks, ensuring the resilience of our communities and ecosystems. This approach supports the achievement of The City's strategic climate and environmental goals.

Economic

The frameworks enable informed decision-making, ensuring that resources are allocated efficiently and effectively, maximizing the economic benefits for The City while safeguarding against potential financial risks.

Service and Financial Implications

No anticipated financial impact

RISK

The successful implementation of risk appetite and tolerance will support The City's decision-making; however, it is not without its challenges. Potential risks include misalignment between risk appetite and strategic objectives, and an inadequate understanding of The City's risk capacity. If risk appetite or tolerance bands are set too narrow, The City will not have flexibility to address unforeseen challenges nimbly. Meanwhile, if they are set too broad, they will not support decision making effectively. These risks can lead to missed opportunities, excessive risk-taking, or decisions that strain The City's financial and operational capabilities. To address these risks, we will maintain ongoing engagement with senior leaders and decision makers, ensuring strategic alignment; regularly update risk metrics to inform decision-making; and continuously refine our risk governance frameworks to adapt to The City's evolving risk landscape. By actively addressing these challenges, The City can leverage the frameworks effectively, promoting informed decision-making, and fostering a balance between risk-taking and caution that protects The City's interests.

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ATTACHMENTS

1. Background and Previous Council Direction
2. Risk Appetite and Tolerance Update
3. Confidential-Applying Risk Appetite and Tolerance: Case Study Insights
4. Presentation

Department Circulation

General Manager/Director	Department	Approve/Consult/Inform
Chief Financial Officer and General Manager Carla Male	Corporate Planning and Financial Services	Approve
Director Chris Stewart	Corporate Planning and Performance	Approve

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City Clerks: J. Booth / A. Gagliardi