

Attachment 3 - City of Calgary's Risk Appetite and Risk Tolerance.docx

Introduction

Developing and implementing, risk appetite and risk tolerance will further The City's ability to achieve the following Council Directive under the Citizen Priority: A Well-Run City:

"We need to recognize that we miss opportunities for innovation in management, service delivery and planning because of an existing culture of risk avoidance. We need to create a culture, including City Council, that embraces appropriate levels of risk, innovation, experimentation, and embraces lessons learned as opportunities to improve."

Definitions

Risk appetite and risk tolerance are part of the The City of Calgary's Integrated Risk Management (IRM) Framework to manage risks that impact the City's ability to achieve objectives.

Risk: is defined as the effect of uncertainty on objectives.

Risk Appetite: is defined as the amount and type of risk that an organization is willing to pursue or retain (in the pursuit of objectives).

Risk Tolerance: is defined as an organization's readiness to bear the risk after risk treatment in order to achieve its objectives (the level of risk acceptable to Council and senior management).

References: City of Calgary (2004). *Council Policy - Integrated Risk Management (CC011)*, City of Calgary; International Organization for Standardization (2018). *ISO 31,000:2018 - Risk Management Guidelines*; *ISO Guide 73:2009*, Geneva.

Risk Appetite Scale

The following risk appetite scale refers to levels of risk appetite which can be applied to different contexts.

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.

Adapted from: City of Saskatoon (2018). *Corporate Risk Appetite*. (File No. CK 1600-3 and AF1880), Standing Policy Committee of Finance. Saskatoon.

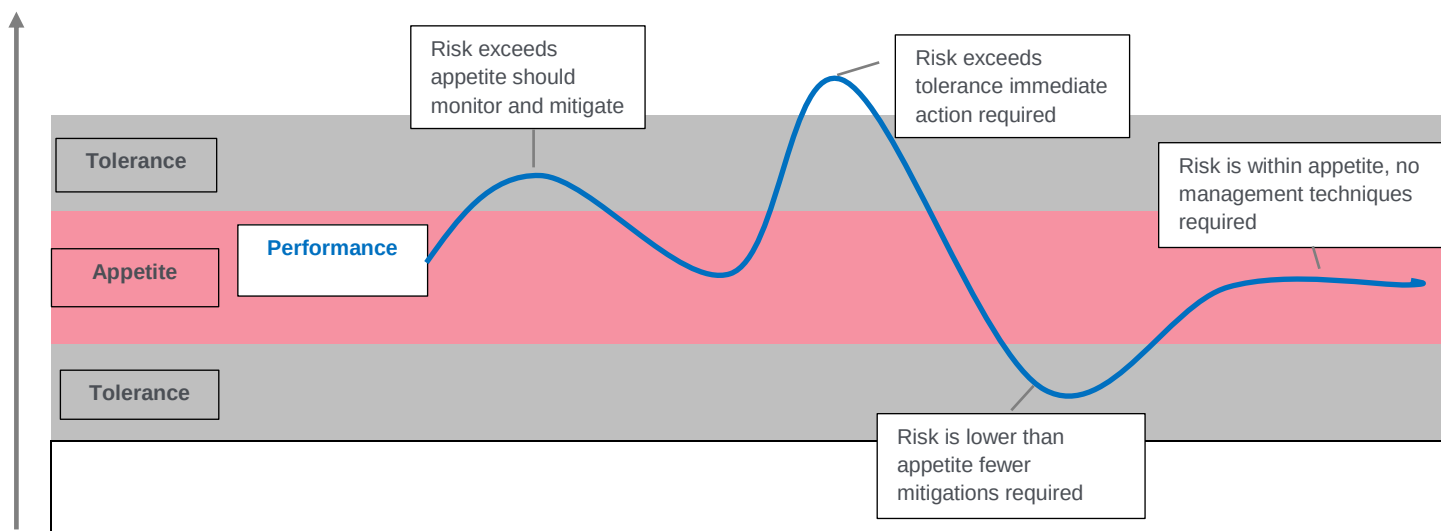
Using Risk Appetite and Risk Tolerance

Risk appetite and tolerance serve as guidelines for decision-makers as to how much risk The City is willing to accept in the pursuit of its objectives. Risk appetite statements are high level and set the tone for The City's approach to, and appetite for, risk. Administration is working closely with stakeholders to create a common understanding of risk appetite and risk tolerance and to assist with the practical application to their

business objectives. These concepts when applied set parameters for everyday operations, establish a common language and provide signs and signals for decision-makers, at any level, to ensure their risk related decisions are aligned with the overall direction of the organization.

With a common understanding of what risk appetite is, and a risk appetite scale to measure it, The City can determine if it is operating within the desired parameters for any given risk. As shown on the visual below, sometimes the level of risk during the pursuit of the achievement of objectives (performance) exceeds or is lower than the defined risk appetite. These exceptions are noted and can inform the decision about when and why to take on more, or less risk in the pursuit of objectives as demonstrated below.

Level of Risk



Ultimately, risk appetite and risk tolerance promote individual responsibility as norms and courses for action can be made explicit with a common approach while collective accountability for shared decision making is encouraged.

To apply risk appetite and tolerance, some key considerations are:

- Consider the risks of doing and not doing something;
- Determine if The City is able to absorb the consequences if a risk event occurs;
- Address interrelationship between risks and respective risk appetites; and
- Develop a culture that supports decision-makers who take appropriate amounts of risk.

Next Steps

As noted above, Administration is working with risk owners and stakeholders to create a common understanding of risk appetite and tolerance. This includes summarizing the Principal Corporate Risks in relation to the risk appetite scale. This work will be continuing in 2019 with an update being brought to the Audit Committee as part of the IRM Model update report on 2019 July 19.