

City Manager's Office Report to
Audit Committee
2019 January 31

ISC: UNRESTRICTED
AC2019-0032

Annual Principal Corporate Risk Report

EXECUTIVE SUMMARY

Integrated Risk Management (IRM) enhances The City of Calgary's planning and decision making and encourages proactive, rather than reactive, management of risk. The Audit Committee has a significant role in the identification, risk analysis and management procedures to mitigate risk. In keeping with its oversight role, the Audit Committee receives and reviews reports from Administration twice per year on The City's management of risk and the Integrated Risk Management Program.

This report provides Audit Committee with an update on The City's Principal Corporate Risks that could affect the achievement of Council's Directives and Administration's Commitments. In addition, this report provides an update on risk appetite and risk tolerance, an enhancement to the IRM program. Administration has been working with stakeholders to implement risk appetite and risk tolerance across the organization. Applying risk appetite and tolerance supports Council's Directives by guiding risk response strategies and promoting accountability through a common understanding of the level of risk the organization is willing to accept in pursuit of objectives.

ADMINISTRATION RECOMMENDATION:

That the Audit Committee recommends that Council:

1. Receive this report for information; and
2. Direct that Attachments 1 and 2 remain confidential pursuant to Section 24 (1) (a)&(b) of the Freedom of Information and Protection of Privacy Act for a period of 15 years.

RECOMMENDATION OF AUDIT COMMITTEE, DATED 2019 JANUARY 31

That Administrations Recommendations as contained in Report AC2019-0032 be adopted.

PREVIOUS COUNCIL DIRECTION / POLICY

The Audit Committee Bylaw (48M2012) states that the Audit Committee is responsible for "overseeing the process of The City's Integrated Risk Management System", among other things. The Audit Committee oversees The City's process of risk identification, risk analysis and management procedures to mitigate risk. Specifically, the Bylaw states that Audit Committee receives and reviews, at least twice a year, reports from Administration regarding The City's Integrated Risk Management (IRM).

At the Strategic Meeting of Council on 2018 January 31, Council adopted the "Council Directives to Administration for 2019-2022 One Calgary Service Plans and Budgets" (Report C2018-0115), which included the following Council Directive under 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."

On 2018 November 20, the Audit Committee approved its 2019 Work Plan (AC2018-1319) which included consideration of the Annual Principal Corporate Risk Report on 2019 January 31. Consistent with the 2019 Work Plan, this report focuses on the Principal Corporate Risks

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(updated as of 2018 December 18). Audit Committee's 2019 Work Plan also includes an update on the IRM Model and Framework, which will be brought forward on 2019 July 19.

BACKGROUND

The City Manager's Annual Principal Corporate Risk Report to the Audit Committee is the result of many integrated and ongoing streams of work undertaken to identify, analyze and determine appropriate responses to risk. The twice per year risk review process requires the coordination and support of service owners, departments, and senior leaders with the most strategic information about risks brought to the Audit Committee.

One of Administration's ongoing work streams includes the development and implementation of risk appetite and risk tolerance (Attachment 3). Risk appetite and tolerance serve as parameters for decision makers as to how much risk The City is prepared to accept in the pursuit of objectives.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Principle Corporate Risks

The Principal Corporate Risks (PCRs) represent the most strategic risks facing the organization. The risks are monitored and managed by senior leadership. Since the last update was provided to the Audit Committee on 2018 July 25, three of the 16 Principal Corporate Risks have changes to their descriptions and five have changes to their trend rating.

The Principal Corporate Risks (updated as of 2018 December) are provided below in alphabetical order. The risks are explored in greater depth, including the risk rating, trend and risk management strategy in the confidential Attachment 1.

Please note: the bold text identifies the risk name and indicates an update to the risk description since the last update to Audit Committee.

1. **Business Continuity Risk:** An interruption to an essential service provided to Calgarians caused by a vulnerability being exposed to a natural, technological, or human hazard.
2. **Capacity for Change Risk:** Increasing velocity, pace and quantity of change in the natural, social, economic and political environment, combined with limited flexibility in the organization to respond contributes to reduced capacity, preparation and experience required to implement new initiatives and adapt to changing priorities.
3. **Economic & Social Impact Risk:** Ongoing pressures from the regional economic downturn are creating increased demand for social supports. This has an impact on both The City and its partners, operations and service delivery.
4. **Environmental Risk:** Potential increase in severe weather and climatic changes may cause disruptions to operations and service delivery. Corporate and community-wide greenhouse gas (GHG) emissions may not meet reduction targets for 2020.

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5. **Financial Risk:** Lower general revenues and/or higher expenses than budgeted negatively impacts service delivery, tax rates and our ability to adapt to growth and **increases the City's reliance on debt.**
6. **Growth Risk:** While growth carries many economic and social benefits, it is also a significant risk for The City because many services and infrastructure need to be in place prior to, or timed with demand. This means The City must anticipate both the level and spatial pattern of growth. These risks can impact The City's capacity to deliver and provide infrastructure and services that meet city-wide demands.
7. **Health & Safety Risk:** Potential harm to City employees and contractors. This may result from non-compliance with health and safety regulations or an incident that could impact City employees/contractors and/or citizens, and expose the organization to potential financial and reputational risks.
8. **Infrastructure Management Risk:** The City owns and operates public infrastructure systems including water service, storm and sanitary sewers, roads, sidewalks, pathways, bridges and other structures and buildings. Ensuring that assets are in good, reliable condition is essential to keeping the city safe. The City is exposed to the risk of assets failing, particularly from inadequate lifecycle maintenance.
9. **Legal & Compliance Risk:** Law provides legal, governance, risk management, and issues management advice with respect to federal and provincial laws and bylaws. Advice is not always sought in sufficient time to allow a strategy to be developed or action to be taken on a proactive basis, resulting in the corporation having to react to issues or lawsuits. This can impair the corporation's ability to complete projects and conclude transactions on time, on budget and within scope, and may result in financial losses or unnecessary business, legal, financial or reputational risk for The City.
10. **Operations, Process Risk:** Failure to ensure appropriate processes are in place to manage the complexity of operations.
11. **Partnership Risk (Civic Partners):** Counterparty risk arising from City partners unable to deliver services.
12. **Political Risk:** Changing priorities or actions of municipal, regional, or other orders of government paired with rapid changes in the natural, social or economic environment could result in funding challenges that may adversely impact The City's ability to deliver on citizen expectations.
13. **Reputation Risk:** Reputation risk is damage to the image of The City or negative perceptions by citizens or stakeholders as a result of actions of elected officials or City employees. **This risk can threaten The City's ability to maintain positive and productive relationships with citizens, businesses, partners and the ability to achieve its corporate objectives.**

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14. **Security Risk:** A violent attack on or in City space could result in loss of life, serious injury as well as halting critical service delivery.
15. **Talent Management & Workforce Planning Vulnerability Risk:** Inability to attract, develop, engage and retain key talent and knowledge in order to meet current and future business needs.
16. **Technology Risk:** There is a risk to **business disruption due to vulnerability or failure of applications.** Rapid pace of emerging threats such as cyber-attacks (willful attack on public infrastructure, public safety, transportation, water treatment, system access, intentional damage, privacy breach, distributed denial-of-service attacks, etc.). Potential impacts include breaches of confidential information, and disruption to the availability of critical systems and applications, and the integrity of those systems.

Further to the direction provided by the ALT at its review of the PCRs on 2018 December 18, work is currently underway to split “Economic and Social Impact Risk” into two distinct risks: “Economic Risk” and “Social Risk”. The intent is to manage and monitor the two aspects of the risk separately. An update will be brought to the Audit Committee on 2019 July 19.

A complete summary of the changes to the risk ratings and trends for the PCRs is provided in Attachment 2. Since being introduced in 2017, the “at a glance summary” shows the progression of the risk ratings and trends over time. For this update, a column titled, “Administration’s approach to this risk” has been included. This is an enhancement and provides additional commentary regarding The City’s approach to the risk.

Risk Appetite and Risk Tolerance

As part of the continual improvement of the Integrated Risk Management (IRM) program, IRM has been working on risk appetite and risk tolerance specific to The City of Calgary (Attachment 3), including definitions and a risk appetite scale.

To facilitate the implementation of risk appetite and tolerance across the organization, IRM is working closely with stakeholders to create a common understanding and to assist with the practical application of risk appetite and tolerance. Further cross-corporate implementation is planned throughout 2019.

In addition to levels of risk being included as a Council Directive, Council has identified risk appetite and risk tolerance as a topic of interest. As such, Administration will work with the Audit Committee and Council to develop a common understanding of risk and overall direction for The City’s risk appetite.

Stakeholder Engagement, Research and Communication

The completion of the twice per year risk review process requires the coordination and support of service owners and teams, departments, and senior leaders. The process promotes the development of risk competency across the organization and fosters a more mature risk culture wherein there is increased awareness of risks to the achievement of objectives, stronger understanding of risk management practices, and enhanced use of risk management tools to support decision-making.

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Strategic Alignment

The IRM program supports the achievement of Council's Directives and Administration's Commitments as outlined in the One Calgary 2019-2022 Service Plans and Budgets. As part of The City's Performance Management System, The IRM program is continuously improving to better meet The City's risk management needs.

Social, Environmental, Economic (External)

Effective risk management helps to ensure The City's ongoing resilience and ability to serve citizens in accordance with The City's strategic goals.

Financial Capacity

Current and Future Operating Budget:

Activities related to the IRM Program continue to be undertaken within approved budgets.

Current and Future Capital Budget:

None related to this report.

Risk Assessment

The City's IRM program supports decision-making and enables successful management of both opportunities as well as threats and hazards. If risks are not identified, assessed, and managed The City is at risk of incurring unnecessary costs and service disruption. Continued, effective management of the Principal Corporate Risks, and the implementation of enhancements to the IRM program (including risk appetite and tolerance) helps to address this risk.

REASON(S) FOR RECOMMENDATION(S): This report is provided to Audit Committee to support the Committee in its role to oversee the process of risk identification, analysis and management procedures to mitigate risk, by providing information on risk management work that Administration has completed, and the results of that work. It is recommended that the Principal Corporate Risk Summary (Attachment 1) and the Overview of Ratings and Trends (Attachment 2) be discussed during the closed portion of the meeting to maintain a balance between comprehensive reporting and discussion of the principal risks facing The City, while protecting the interests of the organization from unintended harm.

ATTACHMENTS

1. Attachment 1 – Principal Corporate Risk Summary Report (Confidential)
2. Attachment 2 – Overview of Ratings and Trends (Confidential)
3. Attachment 3 – The City of Calgary's Risk Appetite and Risk Tolerance