

To: Council in Committee of the Whole

From: Jag Sharma, City Manager,
Office of the City Manager

Report Number: CM-17-27

Date of Report: September 21, 2017

Date of Meeting: September 25, 2017

Subject: Corporate Risk Management Policy and Procedure

File: C-1000

1.0 Purpose

The purpose of this report is to provide a refreshed Corporate Risk Management Policy and Procedure for Council endorsement.

2.0 Recommendation

It is recommended to City Council:

That Report CM-17-27 dated September 21, 2017 containing a refreshed Corporate Risk Management Policy and Procedure be endorsed as the corporate approach to risk management.

3.0 Executive Summary

Risk management is required for good corporate governance and is an integral component of the City's continuous improvement framework. It is therefore important to understand risk and ensure it is managed. An effective risk management approach will also support public confidence in the City's performance.

The purpose of a Corporate Risk Management Policy and Procedure is to embed a systematic approach to identify, assess, mitigate, monitor and report on risks that impact the City's existing functions and processes. The goal is to incorporate risk management into everyday activities, allow for a planned and consistent approach to reducing the impact and likelihood of an adverse event, and increase the possibility and magnitude of benefits that could result from seizing an opportunity.

A refresh of the Corporate Risk Management Policy and Procedure will advance municipal leading practices at the City and better position the City to manage significant corporate risks. The Policy and Procedure has been developed with KPMG guidance and input.

4.0 Input From Other Sources

- Corporate Leadership Team (C.L.T.)
- KPMG

5.0 Analysis

A Corporate Risk Management policy and process was initially developed by the Auditor General in consultation with the C.L.T. and endorsed by Council in November 2011. Under this approach, risk management operated at the Branch level and the Auditor General prepared the Branch risk registers and reported to C.L.T. and Council on significant risks. Legal Services reported separately on significant legal risks.

The Corporate Risk Management policy and process was reviewed and amended in 2013 and a revised Policy and Procedure was approved by C.L.T. and endorsed by Council in the fall 2013. In 2014, the Branches completed their Branch risk registers for the first time. As a result of reviewing and tabulating the outcomes of the risk registers, staff conducted a diagnostic, proceeded to research municipal leading practices and reported to C.L.T. in May 2014. The hiring of KPMG in 2015 as the City's internal auditor included the ability to tap into their knowledge and expertise to assist the C.L.T. in refreshing the Corporate Risk Management Policy and Procedure. Work began in July 2015 and is now complete. A new Corporate Risk Management Policy and Procedure forms Attachment No. 1 to this report.

The Policy and Procedure sets out the purpose of risk management, includes definitions of terms, clarifies responsibilities and explains a risk management four-step procedure that will be conducted at the corporate level. The desired outcomes of the refreshed Policy and Procedure are to:

- Enable the City to better achieve its strategic goals;
- Strengthen planning, priority-setting and decision-making;
- Better manage risk and advance opportunities;
- Allocate resources to high-risk areas; and
- Clarify responsibility and accountability for risk management.

Implementation of the Policy and Procedure and the development of a corporate risk register, which captures the residual risks to the City, will rest with the C.L.T. As the Policy and Procedure is put into practice, minor adjustments may be made. Upon any material change, the Policy and Procedure will be brought back to Council. As well, staff will continue to reach out to KPMG, as necessary, to ensure leading-edge practice in risk management.

Significant risks shall be reported to Council at least once a year in the fall. Significant legal risks will be reported on separately but generally at the same time. In addition to this once a year reporting, staff may report to Committee and Council, as needed, on any significant risks that may arise and require Council's immediate attention.

6.0 Financial Implications

There are no financial implications arising from the recommendation of this report.

7.0 Relationship to the Oshawa Strategic Plan

This report responds to the Council-approved Oshawa Strategic Plan, Our Focus, Our Future (2015-2019) and specifically to the goal of “Accountable Leadership – Ensure respect, responsiveness and transparency”. The relevant theme is “Our Corporate Culture Demands Excellence and Respect” and the specific strategy is “assess risks and learn from our mistakes within a context of continuous improvement”.

A handwritten signature in black ink, appearing to read 'Jag Sharma', written in a cursive style.

Jag Sharma, City Manager
Office of the City Manager

SUBJECT: Corporate Risk Management

APPROVED: _____
City Manager Date

1. Source

Council _____, 2017

Corporate Leadership Team _____ 2017

2. Applicability

This Policy and Procedure shall be used to identify and manage corporate risks.

3. Purpose

Risk is a part of growth, improvement and providing services to citizens, therefore it is important to understand risk and ensure it is managed. An effective risk management approach will also support public confidence in the City's performance.

The purpose of this Corporate Risk Management Policy and Procedure is to embed a systematic approach to identify, assess, mitigate, monitor and report on risks that impact the City's existing functions and processes.

Risk management is an integral component of the City's continuous improvement framework. The goal is to incorporate risk management into everyday activities. It will allow for a planned and consistent approach to reducing the impact and likelihood of an adverse event, and increase the possibility and magnitude of benefits that could result from seizing an opportunity.

The implementation of this Policy and Procedure depends on the Corporate Leadership Team (CLT) and the development and maintenance of a corporate risk register that captures the residual risks to the City.

Risk management at the City of Oshawa is guided by the following principles:

- Risk management is an essential component of good governance and creates value for the City;
- Risk management is a systematic, proactive, dynamic, timely and iterative process;

- Risk management is integrated into the City's continuous improvement framework and is an integral part of decision-making;
- The integration of risk management within the City should be supported by a corporate culture that encourages everyone to identify and manage risks proactively and to communicate openly about risk; and
- This Policy and Procedure will be updated, as appropriate, from time-to-time to ensure municipal leading practice, with any material change to be reported to Council.

The desired outcomes of this Policy and Procedure are to:

- Enable the City to better achieve its strategic goals;
- Strengthen planning, priority-setting and decision-making;
- Better manage risk and advance opportunities;
- Allocate resources to high-risk areas (risk score of 15-25);
- Clarify responsibility and accountability for risk management.

4. Definitions

Senior Staff - City Manager, Commissioners (Department Heads) and Directors (Branch Heads)

Risk appetite - a high level statement that considers broadly the level of risk management deems acceptable and necessary to meet strategic goals (e.g. the City will not accept risk that results in significant revenue loss).

Risk management - the systematic and proactive process of identifying, assessing, managing (reduce threat - avoid, transfer, reduce or accept/act on opportunity - exploit, share, enhance or accept), monitoring and reporting on risks

Risk tolerance – a narrower statement that sets the acceptable level of risk (e.g. no more than a 10% decline in revenue).

Risk - an event, the product of impact and likelihood resulting from a given action and/or inaction, which may negatively or positively impact the achievement of strategic goals

Controls - the means to manage identified risks, including policies/processes, people and technologies

Residual risk - the risk that remains after controls and effectiveness of those controls to manage the risk are considered

Risk matrix - a risk management tool that maps the impact and likelihood of a risk

Low residual risk - a residual risk that scores 1-6 on the risk matrix

Medium residual risk - a residual risk that scores 8-12 on the risk matrix

Significant residual risk - a residual risk that scores 15-25 on the risk matrix

Risk Register - a listing of corporate-level risks developed and maintained by CLT (see Appendix A)

5. Responsibilities

City Council shall be responsible to review and endorse the Corporate Risk Management Policy and Procedure.

The City Manager shall be responsible for risk management throughout the Corporation (not including the Oshawa Senior Citizens Centres).

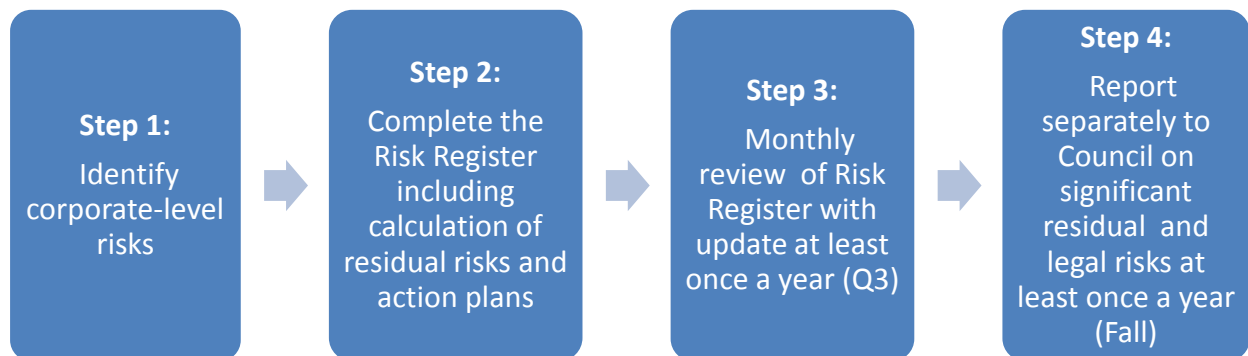
The CLT shall:

- be responsible for corporate risk management and for ensuring compliance with this Policy and Procedure;
- champion the Corporate Risk Management Policy and Procedure;
- ensure any necessary link to the annual Department business plans and Branch work plans as it relates to the implementation of risk management action plans, and associated budget and resources; and
- consult with external advisors on risks, as necessary.

6. Procedure

The following flow chart summarizes the corporate risk management steps to be followed by CLT. The steps are detailed in the following procedure.

6.1. Risk Management Steps



6.2. Procedure

Step 1: Identify Corporate-Level Risks

Corporate-level risks shall be identified by CLT, but may also be identified by Departments and escalated to CLT via CLT members. Department Heads shall work to

increase risk awareness and familiarity with this Policy and Procedure in their Departments via Branch Heads by, for example, including risk as a regular agenda item on Department Head/Branch Head meetings. Staff who identify a significant corporate risk shall inform their manager/supervisor who shall investigate the risk and, as necessary, inform the Branch Head, who in turn, shall inform the Department Head.

When considering new risks, CLT shall consider the current state of the internal and external environment in which the organization operates. CLT shall identify what risks exist corporately, thinking in terms of the possible areas of risk, both from a threat or opportunity perspective (see Appendix B). Consideration should be given to the following questions:

- What are the desired/expected outcomes regarding the delivery of strategic goals?
- What changes to the external environment may affect the City?
- What changes to the internal environment may affect the City?
- What could go wrong/hinder the City's ability to meet its strategic goals?
- What could help the City's ability to meet its strategic goals?

Once a risk is identified, CLT shall discuss and add the risk to the risk register as appropriate.

Step 2: Complete the Risk Register

CLT shall complete the Risk Register for each risk (see Appendix A). The Risk Register consists of the following elements:

- a) risks
- b) linkages to the Oshawa Strategic Plan
- c) existing controls/processes currently in place to manage the risk
- d) residual risk score after accounting for existing controls
- e) further actions that need to be taken to manage the risk
- f) action owner
- g) due date

Step 2(a): Calculate the Residual Risk

Risk scores for each risk should be kept current by CLT. The following steps outline how to (re)calculate the residual risk.

a) Identify Existing Controls/Processes Currently in Place

For each risk, identify existing controls and consider control effectiveness. As a guideline, the following table outlines potential controls and defines three levels of control effectiveness.

813 Controls

Controls / Effectiveness	Policies / Processes / By-laws	People	Technologies
Very Effective	Documented formal policy and/or repeatable process available to, known to, and in use by, staff	Knowledge, skills and experience available internally	Right technology is in place with access controls (passwords) within automated systems used to capture relevant policy, program, service, project or initiative information
Somewhat Effective	Partially or not documented, little known or out-of-date policy and/or process	Some knowledge, skills and experience available internally with access to external help	Out-dated technology with partial access controls and some level of automated systems
Not Effective	No policy and/or process	No knowledge, skills and experience available internally	No or out-dated technology with no access controls

The City's risk appetite and risk tolerance should also be taken into consideration (see Appendix C).

b) Determine Impact and Likelihood

The residual risk score is a product of the impact and likelihood of the identified risk, both of which may be affected by existing controls (policies/ processes, people and technologies) that would manage the impact of the risk.

With an understanding of existing controls and control effectiveness, CLT shall quantify the impact and likelihood of each risk using the impact and likelihood tables below.

Impact

Impact	Criteria
1 Negligible	Minimal impact
2 Minor	Unlikely to have any significant impact on performance or reputation e.g. loss of revenue of <1%, increase in costs of <1%, no regulatory consequence, minor adverse publicity

Impact	Criteria
3 Moderate	Will have impact on performance or reputation in the short-term e.g. loss of revenue of 1-10%, increase in costs of 1-10%, limited regulatory consequence, local adverse publicity, injury
4 Major	Impact will have a serious effect on performance or reputation e.g. loss of revenue of 10-30%, increase in costs of 10-30%, significant threat to City, major savings program needed, significant regulatory consequence, negative headlines in national newspapers/social media
5 Catastrophe	Impact will have a serious effect on performance or reputation in the long-term e.g. loss of revenue of >30%, increase in costs of >30%, substantial regulatory consequence, sustained negative headlines in national newspapers/social media, serious injury or death

Likelihood

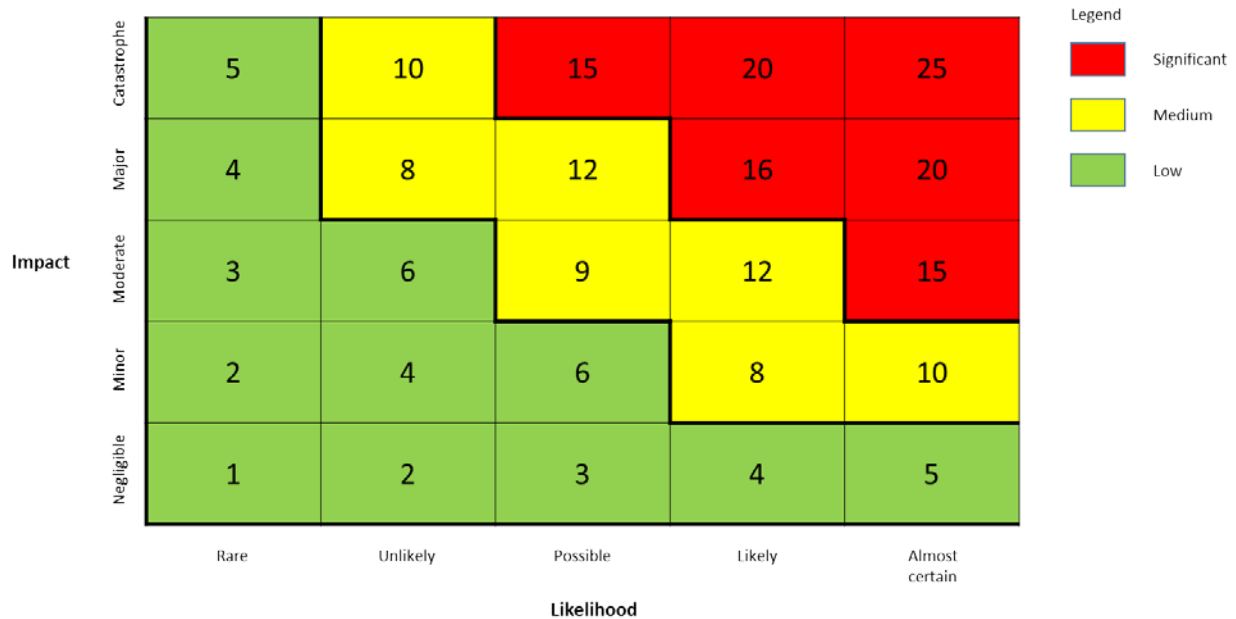
Likelihood Rating		
The number of times within a specified period a risk may occur either as a consequence of business operations or through failure of operating systems, policies, procedures		
Rating	Description	Occurrence
1 Rare	May only occur in exceptional circumstances	Once/>10 years
2 Unlikely	Could occur during a specified time period	Once/5-10 years
3 Somewhat Likely	Might occur within a 5 year period	Once/1 – 5 years
4 Likely	Will probably occur in most circumstances	Once/<1 year
5 Almost Certain	Expected to occur in most circumstances	Multiple/<1 year

Residual risk is a product of impact and likelihood after accounting for existing controls.

Multiplying impact and likelihood scores provides the residual risk score. All scores are recorded in the Risk Register.

$$\begin{array}{c} \text{Impact} \\ \text{Score} \end{array} \times \begin{array}{c} \text{Likelihood} \\ \text{Score} \end{array} = \begin{array}{c} \text{Residual} \\ \text{Risk Score} \end{array}$$

The following risk matrix shows the 25 scores that are possible, ranging from 1 to 25:



The range of scores possible for each level of residual risk is shown below:

Significance	Range of Possible Scores
Significant Risk	15 – 25
Medium Risk	8 – 12
Low Risk	1 – 6

Step 2(b): Develop Action Plans

Based on the residual risk scores, CLT shall develop and implement further actions that are necessary to manage the risk including identification of the action owner and due dates. Implemented action plans should manage the risks and serve to reduce the significance of the risk.

CLT shall assign ownership of each risk and action plan to a CLT member who shall be responsible for ensuring the action plan is up-to-date and on-track, for evaluating the effectiveness of the components of the action plan, and identifying any new actions that may be required.

Step 3: Monthly Review of Risk Register with Annual Update

CLT shall discuss risks on a monthly basis, identifying any new corporate risks and/or discussing the implementation of actions to manage/mitigate key risks, as necessary.

In addition, CLT shall do a thorough review and update of the risk register, at least once a year (Q3) and prior to reporting to Council.

Step 4: Report to Council

CLT shall identify significant residual risks and report to Council at least once a year (Fall). CLT may also report to Committee and Council, as needed, on any significant residual risks that arise and require Council's immediate action through the regular reporting process.

Legal Services shall report separately, but at a similar time (Fall), on significant legal risks to CLT and Council.

7. Questions

Should you have questions or comments about this Policy and Procedure, please direct them to your immediate supervisor or contact the Director, Strategic Initiatives, City Manager's Office at ext. 2298 or hbreak@oshawa.ca.

Appendix A: Corporate Risk Register

CLT Owner	Risk Description	Link to Oshawa Strategic Plan Goals (1-5)	Controls/Processes Currently in Place	Residual Risk			Further Actions Needed to Manage the Risk (Action Plan)	Action Owner (1 person)	Due Date
				Impact Score	Likelihood Score	Total Score			

OSP Goals

- 1 – Economic Prosperity and Financial Stewardship
- 2 – Accountable Leadership
- 3 – Social Equity
- 4 – Cultural Vitality
- 5 – Environmental Responsibility

Range of Possible Total Scores:

Significance	Range of Possible Scores
Significant Risk	15-25
Medium Risk	8-12
Low Risk	1-6

Appendix B: Risk Response Options

There are four generic strategies associated with risk. The choice of response varies depending on whether the risk is perceived as a threat or an opportunity, the manageability of the risk given available resources and cost effectiveness. The strategies are shown in the following table:

Generic Strategies	Threat Response	Opportunity Response
Eliminate uncertainty	Avoid	Exploit
Involve others	Transfer	Share
Change the risk	Reduce	Enhance
Take the risk	Accept	Accept

The response chosen is further informed by the likelihood and impact of the threat or opportunity, as shown in the following graphic:

IMPACT		IMPACT				IMPACT	
		Threat Response		Opportunity Response			
High	Reduce	Avoid	Exploit	Enhance	High		
Low	Accept	Transfer	Share	Accept	Low		
	Low	High	High	Low			

Each of these possible responses, from a threat and opportunity perspective, are addressed below:

Threat:

Avoid the risk – do not proceed with the project that would incur the risk or choose an alternative action that achieves the same or similar outcome without the risk. This choice may be a viable option in some instances, but keep in mind that not all risks can be avoided or eliminated.

Transfer the risk – transfer the responsibility of the risk to another party via a contract, insurance, legislation or administrative process. Remember that even though you transfer the management of the risk, you are still accountable for that risk.

Reduce the risk – add and implement new controls (equipment, methods of service delivery, processes, systems, etc.) to your action plan to reduce the likelihood of the risk (prevention) and/or the impact of the risk should it occur (contingency).

Accept the risk – the risk can be adequately managed with current controls, the consequences are within risk appetite/ tolerance limits and the cost to reduce the risk is affordable. The decision to accept the risk is made by the person(s) accountable for the risk and should be escalated up, as appropriate.

¹ Project Management Institute

819

Opportunity:

Exploit the risk – eliminate any uncertainty associated with the risk and take direct measures to make the risk unavoidable.

Share the risk – the risk can be shared with a party that can help to maximize the probability of the opportunity and increase potential benefits.

Enhance the risk – modify risk exposure by taking action to increase the likelihood and impact of the risk to enhance or take advantage of the opportunity.

Accept the risk – do not take any special action to achieve the potential opportunity. Accepting a risk may lead to innovation and opportunity.

Appendix C: Risk Appetite/Tolerance

Both risk appetite and risk tolerance set boundaries of how much risk an organization is prepared to accept. Risk appetite is a high level statement that considers broadly the level of risk management deems acceptable and necessary to meet strategic goals (e.g. the City will not accept risk that results in significant revenue loss). Risk tolerance is narrower and sets the acceptable level of risk (no more than a 10% decline in revenue).

Risk appetite may vary over time, is not a magic number, nor always quantifiable. It is dependent on the goals of the organization and what risks have to be taken to achieve those goals. Risk appetite speaks to the desired balance between risk and reward, between “value preservation” and “value creation”. Risk appetite also tends to be driven by impact. Public sector organizations are usually less willing to accept risks that will have a major impact even if they are unlikely to occur.

Due to the large and complex nature of a municipality, risk appetite/tolerance may not be easily identified at the organizational level.

To ensure risks are well considered and managed, an organization should provide guidance on the acceptable level of risk that it considers appropriate across the breadth of its business. The following table articulates different levels of risk appetite.

Appetite	Description
Averse	Avoidance of risk and uncertainty is a key organizational objective
Minimalist	Preference for ultra-safe business delivery options that have a low degree of risk and may only have limited potential for reward
Cautious	Preference for safe business delivery options that have a low degree of risk and may only have limited potential for reward
Open	Willing to consider all potential delivery options and choose the one that is most likely to result in successful delivery while also providing an acceptable level of reward
Hungry	Eager to be innovative and to choose options offering potentially higher business rewards despite greater risk