Enterprise Risk Management Update and Annual Register of Key Enterprise Risks

Presented To:	Finance and Administration Committee
Meeting Date:	June 22, 2021
Type:	Referred & Deferred Matters
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Report Summary

This report provides information on the implementation of an Enterprise Risk Management (ERM) framework for the City of Greater Sudbury and builds on the staff ERM update presentation of April 20, 2021. The report also summarizes Council's appetite for risk and introduces the first annual Key Enterprise Risk Management Analysis for Council's consideration as a foundational part of the development of the 2022 Municipal Budget.

Relationship to the Strategic Plan, Health Impact Assessment and Community Energy & Emissions Plan (CEEP)

This report refers to the following Strategic Objectives in the City of Greater Sudbury Strategic Plan 2019-2027: Asset Management and Service Excellence; Business Attraction, Development and Retention; Climate Change; Economic Capacity and Investment Readiness; and Housing.

This report addresses community resilience and climate change preparedness, in line with the Community Energy and Emissions Plan.

Financial Implications

There are no direct financial implications associated with this report.

Introduction

As outlined in the Enterprise Risk Management (ERM) Policy, ERM is a decision-making tool that is designed to assist Council and staff to monitor potential risks within the organization and to ensure that adequate resources are allocated to ensure that strategies are developed and implemented to mitigate risks to an acceptable level. ERM helps to support informed decision-making, promote confidence in the organization's ability to respond to risks, and to create transparency with regard to key enterprise risks and how these risks are being managed.

Every activity carries some risk and municipalities are continuously exposed to a wide spectrum of risks. The corporation cannot completely avoid risk, nor eliminate it. It is important to understand Council's perspective

on the acceptable balance between risk mitigation and timely, low-cost service efforts. For example, lower risk tolerance increases the potential for more oversight in the form of policy controls and output validation. While this would reduce the potential that an adverse outcome could occur, it could also affect cost, performance or quality in ways that might also be unacceptable.

Establishing the ERM environment, sometimes described as risk tolerance or appetite, is an important role in any organization. It is the governing body's responsibility to establish an ERM environment. In the City of Greater Sudbury, this role belongs to Council. This report provides an assessment of this environment, the basis for the assessment and describes how it will be applied through our service delivery systems.

ERM is not a new concept for the City of Greater Sudbury. Prior to the Auditor General's recommendation to begin the development of an enterprise-wide approach, risk management was already an integral part of project planning across the organization. In the past five years, all departments have initiated ERM analysis for their services and have worked with the Auditor General to incorporate risk management thinking into the development of annual work plans. For the past several years, ELT has been able to review this work to discuss common themes, or key enterprise risks.

This report is next step in the evolution of ERM. By bringing forward a key enterprise risk report at the beginning of the annual budget cycle, Council can be directly engaged in the risk management discussion to inform its decision-making and resource allocation choices. As this process matures over the next several years, Council will be able to see trends in the identified risks, monitor the success of the risk mitigation strategies and direct resources to achieve desired outcomes.

ERM Environment

Every organization has unique elements and, for the purposes of ERM, it is important to understand how an individual organization approaches risk. The risk environment includes the level of tolerance for risk ("risk appetite") and acceptable methods for managing risk. A basic understanding of this environment helps staff to determine which projects and approaches should be pursued in any given situation.

As stated in the CGS ERM Policy, the CAO and City Council each have roles and responsibilities in the systematic management of enterprise risks. Council will determine the level of tolerance for risk and will monitor the approach to key enterprise risks.

The risk environment can be evaluated and stated in many ways. For example, as shown in the following table, the public service in the United Kingdom summarizes this on a five point scale, (Averse, Minimal, Cautious, Open, Eager), with each level developed as a statement that provides a high level description of the approach to risk for a particular category.

Risk Appetite	Description
Averse	Avoidance of risk and uncertainty is key objective. Activities undertaken will only be those considered to carry virtually no inherent risk
Minimal	Preference for very safe business delivery options that have a low degree of inherent risk with the potential for benefit/return not a key driver. Activities will only be undertaken where they have a low degree of inherent risk.
Cautious	Preference for safe options that have low degree of inherent risk and only limited potential for benefit. Willing to tolerate a degree of risk in selecting which activities to undertake to achieve key deliverables or initiatives, where we have identified scope to achieve significant benefit and/or realise an opportunity. Activities undertaken my carry a high degree of inherent risk that is deemed controllable to a large extent.
Open	Willing to consider all options and choose one most likely to result in successful delivery while providing an acceptable level of benefit. Seek to achieve a balance between a high likelihood of successful delivery and a high degree of benefit and value for money. Activities themselves may potentially carry, or contribute to, a high degree of residual risk.

Risk Appetite	Description
Eager	Eager to be innovative and to choose options based on maximising opportunities and potential higher benefit even if those activities carry a very high residual risk.

Earlier this year, staff conducted an informal survey of members of Council to obtain a basic understanding of the risk environment for the corporation. Eleven councillors participated and provided input, with the results placing our organization's risk environment between Cautious and Minimal on the chart of values above.

This result is not surprising as public sector organizations generally tend towards a more cautious approach to risk. Unlike the private sector, which has the relatively simple measure of profits to determine the risk/reward benefits of any particular venture, public enterprise rewards tend to be indirect and longer term. There is also a need to demonstrate, often over a shorter period of time, that public funds achieve value for money.

The survey results assist staff in understanding the risk environment and provide guidance for developing initiatives and assessing potential risks. Knowledge of the risk environment also assists staff in developing risk mitigation strategies to better ensure that initiatives are delivered in a manner that respects the direction provided at the corporate governance level.

Annual Register of Key Enterprise Risks

As described earlier in this report, work carried out at the divisional and department level has been discussed with the Auditor General and is consolidated in the following key enterprise risks. In line with the process presented to the Finance and Administration Committee on April 20, each identified risk has been assessed for the likelihood of occurrence (Almost Certain, Likely, Possible, Unlikely or Rare) and a similar assessment for the potential consequence of an occurrence (Severe, Major, Moderate, Minor, Insignificant). The combination of these assessments determines the significance of the unmitigated risk to the organization, which can vary from low to moderate to significant to critical.

Any risks that are determined to be significant or critical have been assigned to a member of ELT who will act as risk owner and will be responsible for overseeing strategies to mitigate the risk to a level that is acceptable within the CGS risk management environment. The risk owner will report regularly to ELT on progress and, as appropriate, the CAO will incorporate information in quarterly updates to Council.

Mitigation strategies may require additional staff, financial resources or processes to implement. As appropriate, these will be discussed with Council. Council will also have the ability to monitor progress and direct resources as part of the annual budget process.

The table, included as Appendix A, provides the details for Key Enterprise Risks as Council sets the direction for the 2022 Municipal Budget.

Conclusion

As indicated, this report continues the development of a formal ERM process at the City of Greater Sudbury. Council can expect that processes and reporting will evolve over the next several years as ERM becomes embedded in the annual business cycle. The Auditor General's role will also evolve as that office shifts from a development role into a monitoring and evaluation role.

The stated goals of supporting informed decision-making, ensuring confidence in the organization's ability to respond to risks, and creating transparency with regard to key enterprise risks and how these risks are being managed, will remain at the forefront of the corporation's ERM efforts.

Council can expect to see the ERM concepts and approach reflected in reports on a regular basis, in the CAO's regular quarterly reporting and annually as part of the budget direction reports.

Resources Cited

Enterprise Risk Management Policy – Adopted by Council on September 11, 2018 – https://pub-greatersudbury.escribemeetings.com/filestream.ashx?documentid=4807

Enterprise Risk Management Update Presentation, April 20, 2021 - https://pub-greatersudbury.escribemeetings.com/FileStream.ashx?DocumentId=39845