

DATE OF MEETING OCTOBER 15, 2025

AUTHORED BY WENDY FULLA, DIRECTOR, FINANCE

**SUBJECT 2026 GENERAL FUND PROJECT CONTINGENCY**

## **OVERVIEW**

### **Purpose of Report**

To request a 2026 general fund project contingency for the 2026 – 2030 Financial Plan. |

### **Recommendation**

That the Finance and Audit Committee recommend that Council direct Staff to include a \$1,035,000 general fund project contingency for 2026 in the 2026–2030 Provisional Financial Plan, funded from 2025 surplus.

## **BACKGROUND**

Each year, the City updates its 10-Year Project Plan to reflect changes in scope, timing, and cost estimates, and to incorporate new priorities. Most projects include a contingency based on their stage of development. Given that budgets are prepared before full details of scope, design, schedule, and risk are known, it is reasonable to expect that actual costs may differ from approved budgets. Additionally, new opportunities or initiatives often arise throughout the year.

The City's budget transfer process allows for reallocation of funds between projects. Typically, funds are transferred from projects completed under budget or cancelled, to those requiring additional funding or to new initiatives. Larger funding shortfalls or significant emerging issues are referred to Council for direction.

However, due to timing or funding constraints, it is not always feasible to reallocate funds from completed projects. A general fund project contingency ensures that projects can proceed in a timely manner without the need to return to Council or cancelling other planned projects to make funding available.

At its meeting on 2023-OCT-18, the Finance and Audit Committee approved a new approach to project contingencies in future financial plans. This approach includes:

- Establishing a contingency based on a percentage of total capital projects;
- Reflecting current economic conditions;
- Making the contingency accessible to all departments;
- Presenting the recommended contingency and funding options annually for Council's consideration.

This ensures that contingency needs do not result in delays or removal of priority projects during the planning process.]

## **DISCUSSION**

### **2024 Project Contingency Update**

Council approved a \$890,000 (2.5%) contingency for 2025, funded from 2024 surplus. As of 2025-SEPT-24, \$643,118 has been allocated, with 27.7% of the contingency remaining. Any unspent funds at year-end will be returned to the Special Initiatives Reserve to support future Council priorities.

### **2026 Project Contingency Request**

The 2026 Draft General Fund Project Plan totals \$59.3 million excluding internal orders. Staff recommend maintaining a 2.5% contingency budget for 2026, amounting to \$1,035,000 (rounded to nearest thousand), to support emerging needs throughout the year.

For significant capital projects, the contingency request is designed to balance prudent risk management with the overall demands on available funding. Accordingly, the contingency calculation above excludes the Beban Complex Roof and the Nanaimo Aquatic Centre HVAC Equipment Upgrades projects, as each already includes dedicated contingency funding within their respective budgets.

The contingency fund is intended to address:

- Unanticipated cost escalations beyond planned estimates
- Smaller opportunities or issues that arise during the year

Any unused contingency at year-end will be available to fund other Council priorities.

### **Funding Options:**

Several options are available to fund the proposed contingency:

1. 2025 Surplus
  - In accordance with the City's Reserve Fund Policy, any operating surplus must first be allocated to replenish reserves that are below their minimum required balances.
  - An estimated \$257,000 from surplus will be allocated to the Snow and Ice Control financial stability reserve, to bring it up to its 2026 minimum balance of \$1,587,000.
  - An estimated \$1,350,000 from surplus will be allocated to the RCMP Contract financial stability reserve as Council previously directed any surplus from the RCMP contract should be allocated to the reserve.
  - Based on financial results for the six months ending 2025-JUN-30, the projected unallocated General Fund operating surplus for the year is approximately \$2,503,800.

## 2. Strategic Infrastructure Reserve (SIR)

- Based on the 2026 – 2030 Draft Financial Plan the SIR has a projected 2026 closing balance of \$4,117,694 with a minimum balance requirement of \$351,780.

## 3. Property Taxation

- A one-time funding allocation above base project funding from property taxation.
- The projected property tax impact would be approximately ~0.6%.

## 4. Cancel or Defer 2026 Projects

- Council could direct staff to cancel or defer projects to create funding capacity for a project contingency budget.
- All projects in the draft plan are considered priorities by staff.

Alternatively, Council may choose not to proceed with a contingency project budget. This could result in project cancellations or missed opportunities due to funding shortfalls. |

## **OPTIONS**

1. That the Finance and Audit Committee recommend that Council direct Staff to include a \$1,035,000 general fund project contingency for 2026 in the 2026–2030 Provisional Financial Plan, funded from 2025 surplus.
  - The advantages of this option: Allows for departments to address smaller scope changes/cost overruns and emerging opportunities/issues in a timely manner without canceling planned projects or having to return to Council for additional funding.
  - The disadvantages of this option: Decreases the surplus available for strategic priorities or contributions to reserves.
  - Financial Implications: The contingency will be incorporated into the 2026–2030 Provisional Financial Plan with no impact on property taxes.
2. That Finance and Audit Committee recommend that Council direct Staff to include a decision point in the 2026 – 2030 Financial Plan deliberations on a 2026 project contingency and possible funding options.
  - The advantages of this option: Allows Council to review the entire 2026 – 2030 Draft Financial Plan prior to deciding.

## **SUMMARY POINTS**

- A general fund project contingency budget provides departments with the flexibility to respond to smaller funding challenges or opportunities promptly and effectively.
- The project contingency budget is based on planned capital project budget and current market conditions.

- In 2023, Council directed staff to incorporate a new approach to project contingencies in future Financial Plans.

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