

Capital Project Contingency – Amendment to Council Policy No. C03-036, Multi-Year Business Plan and Budget

ISSUE

Council Policy No. C03-036, Multi-Year Business Plan and Budget includes requirements for inclusion of project contingency. This report recommends a change to this section as well as provides information on possibilities of inclusion of contingency amounts in capital budget reporting.

RECOMMENDATION

That the Standing Policy Committee on Finance recommend to City Council that the City Clerk's office amend Council Policy No. C03-036, Multi-Year Business Plan and Budget as detailed in this report.

BACKGROUND

At the [December 16, 2019 City Council](#) meeting it was resolved:

“That the Administration report back on their ability to provide the details of contingency amounts in capital projects when requesting approval from City Council.”

Council Policy No. C03-036, [Multi-Year Business Plan and Budget](#) states the following:

“Each capital construction project shall include, where necessary, reasonable provision for contingencies.

- i) The amount set aside for contingencies shall correspond with industry standards and shall not exceed 10% (or a percentage determined by City Council) of the total project estimated cost.
- ii) The contingency fund may, unless otherwise directed by City Council, be used only to compensate for unforeseen circumstances that arise requiring additional funds to complete the project according to the approved project scope and approved identified needs.”

DISCUSSION/ANALYSIS

In accordance with Council Policy No. C03-036, Administration currently estimates an amount appropriate for budgeted contingency for each capital project. Some projects are similar in scope to previous projects and may require limited contingency as the unknown or unexpected risks should be minimal while others are unique projects that may require additional contingency to ensure coverage for uncertainty and risk on the project. Contingency amounts are not currently shown separately within the capital project section of the annual budget book that is presented for City Council approval at the budget deliberation meetings.

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Administration has reviewed the ability to provide contingency information to City Council and it would be possible to present a manually inputted text line with the amounts of the contingency included within the capital projects details as presented during budget deliberations. However, Administration is not recommending this as widely advertising contingency amounts is not a common practice and it could have a negative impact on the City's ability to achieve best value through procurement and associated contract management.

During Administrations' review of Council Policy No. C03-036 for this report, it was determined that the maximum percentage for contingency (currently 10%) as outlined in Council Policy No. C03-036 may not encompass all scenarios. For some unique projects that will not be started for several years, the ability to accurately estimate the cost of a project before further study or design work is completed is limited. Different classes of cost estimates will also require a higher or lower contingency to be added to the project. If the project is in the preliminary design or project planning stage the accuracy of the cost estimate could be +/- 30%. Also, if there are greater risks such as working within riverbanks, with environmental contamination or underground, more contingency may be required to ensure the budget will cover the potential known and unknown risks for the project.

Due to these circumstances, Administration is recommending that Council Policy No C03-036, Section 4.3(e)(i) be repealed and replaced with:

The amount set aside for contingencies shall correspond with industry standards based on the specific circumstances of each individual project or as determined by City Council.

OTHER IMPLICATIONS

There are no financial, privacy, legal, social or environmental implications identified.

NEXT STEPS

If the recommendation is approved, the City Clerk's office will amend Council Policy C03-036 Section 4.3(e)(i).

REPORT APPROVAL

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