

RPT 21-305

TITLE: Project Budget Management Policy

DATE: June 24, 2021

TO: Executive Committee

PUBLIC: X

INCAMERA:

RECOMMENDATION:

That the draft Project Budget Management Policy be accepted.

TOPIC & PURPOSE:

The purpose of this report is to introduce a draft Project Budget Management Policy.

BACKGROUND:

The following key points were heard from members of the committee regarding projects and project contingencies:

1. Ensure that Administration has an approved contingency to manage projects in a manner that avoids the cost of unnecessary delays when issues arise;
2. Administration should be accountable and responsible to manage the project budget in a manner that is protective of the budget, including contingency;
3. Administration should ensure that unused contingency is not spent by Administration to increase the scope or budget of the project without subsequent Council approval;
4. If contingencies are spent to avoid delays in circumstances where consultants are responsible for additional unbudgeted costs, that efforts are made to hold any responsible consultant financially accountable to recover the contingency; and,
5. The existence of a contingency should be less obvious to City contractors during Council's contract approval.

PROPOSED APPROACH AND RATIONALE:

The most important factor in delivering successful projects on time and on budget is to ensure projects are well defined up front and minimize changes once a project is underway.

Purpose of a Project Budget Management Policy

The purpose of a Project Budget Management Policy is to:

- Provide guidance to City Administration
- Enable The City to be accountable
- Enable delivery of successful projects on time
- Complete projects on budget
- Ensure consistency
- Ensure compliance with policies and directives of Council
- Ensure compliance with legislation

All projects must have approval by Council. This includes the project dollar amount plus the potential need for a contingency. Approval by Council is made in public so the contingency amount will be identified but will be included as a pooled contingency. Although the contractor may be aware that there is a 'pooled' contingency, it can be made clear that the 'pooled' contingency is not necessarily available for the project.

The draft policy references a 'pooled contingency' approach to establishing, monitoring and authorizing the use of contingencies for projects. The pooled approach will only be successful in meeting the objective of a contingency being less obvious to the vendor if there is more than one (1) project in progress each year.

The following objectives were identified and used as the foundation in the development of the attached draft policy.

1. Project Budgeting Objectives:

Objective	Policy	Reference to Draft Policy
A. Promote accurate project budget estimating	Ensure budget includes capital required to address any complications of the project but not to increase the scope of the project	2.02, 2.03, 2.04, 4.01, 4.02, 7.01, 7.03 Purchasing Policy 17.5,
B. Include project contingencies at levels meaningful to each project	- Depending on the project task complexity and risk, each project will have a predefined contingency percentage - The project contingency amount of each project will be pooled	2.02, 4.01, 4.02, 7.01, 7.02
C. Ensure contingency is less obvious to contractors	- Develop a project 'contingency pool' for the total of all projects	2.02, 2.03, 2.04, 3.04, 7.01, 7.02

	- A pooled contingency for all projects will result in contingency funds from being less obvious to vendors / contractors	
D. Contingency to be used for change orders and not to increase the scope of the project	- Change in scope of the project requires Council approval - Define 'change order' to be: 1. Error – result of extra cost or delay due to the correction of design or other deficiency 2. Omission – item(s) missing from drawings or specifications which now must be added 3. Discovered condition – Unforeseen and unknown to the contractor and The City	2.02, 2.03, 2.04, 3.04, 5, 7.02, 7.03
E. Avoid adjusting project budgets to address mill rate concerns	- Address mill rate concerns by prioritization, scope and competitive procurement for projects - Do not understate or jeopardize a project in order to reduce the mill rate	2.01, 2.02, 2.03, 2.04, 4.01, 4.02 Purchasing Policy 17.5,

2. Managing Project Budgets - Objectives:

Objective	Policy	Reference to Draft Policy
A. Administration management accountability for reporting and budget tracking	- Change orders require approval by City Manager - Change orders tracked - See C. below for reporting requirements	2.02, 2.03, 2.05, 4.01, 4.02, 7.03
B. Avoid project delays – establish threshold authorities for change orders	- Thresholds established as per the Purchasing Policy - City Manager to authorize the use of the pooled contingency	2.02, 2.03, 2.04, 4.01 Purchasing Policy 17.5
C. Ensure accurate project-to-date reporting of project/status/actuals	- The 'Updated Status on Capital Projects' report is provided at the start of construction and for each Executive Committee meeting - The report includes specifics such as budget, spending to date, variance, funding details and timeline information	7.04

	<ul style="list-style-type: none"> - Each Department will continue to report the results of projects that have been completed - The balance of the pooled contingency will be reported annually - Details of the pooled contingency analyses will be reported annually to Council incamera 	
D. Protect unused contingency	<ul style="list-style-type: none"> - City Manager to authorize the use of the pooled contingency - The contingency per project will be removed upon completion of the project 	2.05, 7.01, 7.02, 7.03
E. Ensure consultant / contractor accountability for contract over expenditures	<ul style="list-style-type: none"> - All change orders & use of contingency to be approved by the City Manager 	3.04, 4.03, 7.04

CONSULTATIONS:

Consultations were held with the City Manager, City Clerk, City Solicitor, Director of Public Works and Management Committee to create and discuss objectives to be considered for this policy.

Summary of Contingencies by Other Jurisdictions

Contingencies by other jurisdictions were reviewed for comparatives. Jurisdictions tend to budget contingencies by percentage (%) but authorization levels vary.

Jurisdiction	Project Contingency Details
Federal Government	<ul style="list-style-type: none"> - 2% - 4% green field projects - Up to 10% for others but depends on department and complexity of project
Provincial Government	<ul style="list-style-type: none"> - 10% all projects - Up to 20% depending on complexity of project
Moose Jaw	<ul style="list-style-type: none"> - 10% on all projects - Project Manager, Director and City Manager sign off authority up to signing limits
Regina	<ul style="list-style-type: none"> - 10% on all projects - Project Manager has signing authority within the contingency budget approved
Saskatoon	<ul style="list-style-type: none"> - Administration has full authority once the General Budget is passed

	<ul style="list-style-type: none"> - Usually 10% held as contingency - Only a project that exceeds 25% of budget is brought back to Council - Project Manager has signing authority within the contingency budget approved
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COMMUNICATION AND/OR ANNOUNCEMENT PLAN:

Once the draft policy receives approval, it will be forwarded to Council for public consideration and approval.

POLICY IMPLICATIONS:

The development of a formal policy will allow for the following:

1. Ensure that Administrative processes are in alignment with Council's objectives and goals.
2. Develop a policy that protects Council's interest in reaching their objectives and goals, and ensures that Administration is conducting their work within those specific objectives and goals.

The development of a formal policy references other Bylaws and Policies and these are:

- Purchasing Policy No. 17.5
- Bylaw No.1 of 2020 Administration Bylaw

FINANCIAL IMPLICATIONS:

The Project Budget Management Policy will be used as a management tool for project budgets and contingencies.

Disadvantages of having no Project Contingency

Most levels of government, government agencies and other organizations give consideration to project contingency. Some considerations that should be noted are:

- There could be less vendors participating in The City's RFPs and tenders. No contingency for errors, omissions and discovered conditions could result in unreliable quotes and limit vendor(s) for a project.
- Expected results from the project may be less attainable if there is no contingency for errors, omissions and discovered conditions.
- Vendors may include a hidden contingency in their proposal if there is no approved contingency for errors, omissions and discovered conditions. This reduces the likelihood of the best return on capital investments.

- Future costs may occur if errors, omissions and discovered conditions are not sufficiently addressed during the project.
- Departments may need to submit regular requests to Council for additional funding.

The consequential risk of the above considerations will increase with each project's complexity and dollar amount.

OTHER CONSIDERATIONS/IMPLICATIONS:

There are no options to the recommendation, privacy implications, or other considerations.

STRATEGIC PLAN:

1. The City's Strategic Goal of Corporate Sustainability:

"The City recognizes that a well-functioning organization needs to be clear on the roles and functions of Administration and Council, understand the core principles and behaviors of good governance, and commit to continued improvement in governance and organization."

2. The City's Strategic Core Value of Accountable and Transparent:

"We will make decisions based on clear and proactive criteria and we will provide information that is relevant, accessible, timely and accurate."

OFFICIAL COMMUNITY PLAN:

Section 4 – Decision Making outlines the following relevant goal and policies:

Educate and inform employees about City programs, issues and initiatives:

- Increase employees' knowledge of departmental functions across the organization; and,
- Improve the organization's ability to anticipate and respond to issues.

Section 14 – Finance outlines the following relevant goal and policies:

Maintain effective management, efficiencies and accountability of the City's fiscal budgets and operations:

- Ensure City financial policies and practices are consistent with the Official Community Plan.

OPTIONS TO RECOMMENDATION:

1. Continue projects with a contingency but add the process to have all change orders approved by the City Manager.

PUBLIC NOTICE:

Public Notice pursuant to the Public Notice Bylaw No. 24 of 2015 is not required.

PRESENTATION: Verbal presentation by Cheryl Tkachuk, Director of Financial Services

ATTACHMENTS:

1. Project Budget Management Policy

Written by: Cheryl Tkachuk, Director of Financial Services

Approved by: City Manager