

Report

Date August 12, 2025
Subject 2026 Budget Update and Timeline

File:

PURPOSE

To provide Council with background information on the 2026-2030 financial plan, including budget projections, key cost drivers, and a proposed timeline for reports and presentations to be brought forward in the fall of 2025 and early 2026.

BACKGROUND

Municipal budgeting is a continuous and collaborative process. Each year, Council and staff work together to develop an annual budget that outlines how North Cowichan's resources will be allocated to support and enhance the community. Throughout the summer, staff gather input from departments across the organization to prepare a draft budget. This draft is presented to Council in the fall, where it undergoes review, discussion, and refinement. The final budget is typically approved early in the new year.

The budgeting process is designed to balance the need for a fair and sustainable tax rate with the delivery of quality services to residents and businesses. It reflects Council's strategic priorities and aligns with key guiding documents such as the Official Community Plan, Master Transportation Plan, and Climate Adaptation Strategy. The financial plan also incorporates Council's policies on revenue, taxation, and budgeting, ensuring service levels are maintained. Additionally, it aims to include a forward-looking infrastructure renewal strategy to provide long-term value and efficiency.

DISCUSSION

The 2026 preliminary increase to tax revenue needed is 9.26% net of the projected new investment of 1.25%. The 9.26% increase reflects the revenue required to maintain current service levels and does not include any additional funding for supplemental or capital requests. Staff remain focused on addressing critical service needs, pursuing funding opportunities, and reviewing budgets to ensure efficient use of resources and alignment with Council priorities.

Budgeting Challenges

Budgeting for a municipality involves navigating several complex challenges, including balancing reasonable tax rates with service expectations, managing limited revenue sources, addressing infrastructure deficits, and ensuring transparency and public engagement. The process is further complicated by reliance on estimates, regulatory constraints, and the downloading of responsibilities from higher levels of government.

2026 Cost Drivers

The major cost drivers for the 9.26% increase in 2026 are as follows:

- Increase of \$615,000 to RCMP detachment debt;
- Increase of \$943,000 to RCMP contract;
- Increase of \$400,000 to E-Comm 911;
- Re-establishing reserves that were omitted in 2025;
- 2026 election;
- Full-year impact of positions approved in 2025;
- 3% inflationary increase to most expenses; and,
- 5% CUPE increase.

Additional Budget Pressures

In addition to the 9.26%, there are additional budget pressures that are not yet accounted for as follows:

- A large infrastructure maintenance and replacement backlog;
- Council's strategic priorities of forestry, industrial lands, servicing, asset management, and procurement;
- Increasing demand for social and housing supports;
- Staff recruitment and retention challenges;
- Reserves lower than optimal;
- Development Cost Charges (DCC) implementation;
- Fire Department collective bargaining; and,
- Implementing internal plans, including the Economic Development plan, the Fire Department strategic plan, the Development Planning services review, the Biodiversity Protection Plan, etc.

Delaying investment in key areas can lead to a range of challenges. Service levels may decline due to a lack of resources, and infrastructure may deteriorate due to a lack of preventative maintenance, resulting in higher long-term costs. Staffing issues such as burnout and turnover may arise due to underinvestment in workforce sustainability. Additionally, limited reserves increase financial vulnerability, especially in the face of economic shifts or industry volatility, such as ongoing uncertainty in the forest sector. Without proactive planning, these pressures can lead to unpredictable tax increases and reduced public confidence.

Reserves

Reserves play a vital role in North Cowichan's long-term sustainability. They provide a buffer against unexpected costs, economic fluctuations, and emergencies, helping to stabilize service delivery and avoid sudden tax increases. Having sufficient reserves allows for proactive investment in asset renewal and maintenance, reducing the risk of costly breakdowns or reactive spending. Ultimately, well-managed reserves support strategic planning, financial resilience, and the ability to meet community needs over time. Several of North Cowichan's reserve funds are currently underfunded, and staff recommend prioritizing them in future budgets to support the long-term financial sustainability of the municipality.

In alignment with Council's Revenue, Tax, and Budget Policy, the preliminary 2026 Operating Budget demonstrates encouraging progress toward capital funding goals. A total of 19% of municipal property tax revenue is allocated to capital; 5% directed to reserves, and 14% to capital projects, exceeding the minimum policy requirement of 15%. While this is a step in the right direction, continued increases in capital funding will be necessary to address infrastructure backlogs and ensure the timely replacement of priority assets. Strengthening this investment will help the Municipality stay ahead of future demands and maintain service reliability, allowing North Cowichan to be proactive rather than reactive.

Public Engagement

Engaging residents and businesses in the budget process continues to be a key priority, as required by the *Community Charter*, although the Charter does not specify the extent or method of engagement. In fall 2024, staff and Council hosted three town halls in Crofton, Chemainus, and the South End to encourage public participation and input on Budget 2025. While participation was limited, this presented an opportunity to revisit and enhance our engagement strategies. Staff are seeking Council's guidance on how best to shape and prioritize public involvement for the 2026 budget cycle to ensure meaningful and inclusive dialogue.

Engagement with residents and businesses could include:

- A comprehensive digital engagement strategy that provides updated content on the Connect North Cowichan budget page, informative public materials, and widespread promotion of all 2026 budget-related meetings to encourage greater understanding of municipal budgeting and the 2026 budget. And/or
- Similar to last year's approach, hosting open houses in Crofton, Chemainus, and South End to engage with residents in person. These sessions would feature participation from the Mayor, Council, and staff, include Special Committee of the Whole meetings, high-level presentations from the Chief Administrative Officer and General Managers, and departmental storyboard displays to help communicate key budget priorities.

When considering public engagement opportunities, it is important to ensure contributions made by participants are considered or reflected in final decisions and that the process is meaningful, inclusive and transparent.

Budget Timeline

The suggested timeline below allows staff to provide Council with an overview of each department and a briefing on the departmental activities aligned with the current strategic plan. Cost pressures from the budget drivers discussed in this report will be unpacked and presented to Council with options for how to mitigate the costs.

The proposed timeline aims for early adoption of the financial plan bylaw in the new year. This enables staff to promptly initiate project tenders and undertake actions approved by Council. The goal is to ensure the timely completion of these items.

DATE	TYPE	ITEM
November 12, 2025	COW	Grant-in-Aid
November 25, 2025	COW	Business Plan Review
December 2, 2025	COW	Business Plan Review Part 2
December 9, 2025	COW	Operating & Capital Financial Plan Review
January 13, 2026	COW	Utility Rate Review
February 4, 2026	Council	Financial Plan Bylaw 3 Readings
February 18, 2026	Council	Financial Plan Bylaw Adoption

OPTIONS

1. **(Recommended Option)** THAT Council endorses the 9.26% tax increase as proposed, and further that Council:
 - a) Directs staff to create a robust digital engagement for the 2026 budget;
 - b) Provides feedback on the proposed 2026 budget timeline; and,
 - c) Reviews business plans with supplementals and capital requests at future meetings to establish the final property tax revenue increase needed for the 2026 budget.
 - This option provides clear direction to staff and a timeline necessary for staff to begin the detailed 2026 budget planning and preparation.
2. THAT Council amends the above recommendation by *[Council to include changes]*

IMPLICATIONS

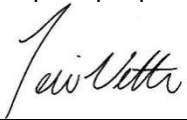
If Council wishes to consider a tax revenue increase below the currently required 9.26%, staff will undertake a comprehensive review to identify potential cost-saving measures. This process will involve all departments examining their budgets for possible reductions and will require discussion at the senior leadership level. Given the scope of this work, it is anticipated that this exercise could take anywhere between one and three months. Staff will then prepare a report outlining options for Council's consideration, which may include adjustments to service levels and could affect the ability to implement Council's strategic priorities fully.

Establishing clear direction and timelines early in the 2026 budget cycle will provide staff with the necessary guidance to move forward confidently and efficiently. Early input from Council will help ensure the budget is completed on time, aligns with strategic priorities, and supports continuous service delivery while meeting all legislative requirements.

RECOMMENDATION

- THAT Council endorses the 9.26% tax increase as proposed, and further that Council:
- a) Directs staff to create a robust digital engagement for the 2026 budget;
 - b) Provides feedback on the proposed 2026 budget timeline; and,
 - c) Reviews business plans with supplementals and capital requests at future meetings to establish the final property tax revenue increase needed for the 2026 budget.

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Approved to be forwarded to Council:



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