

Audit of the Permitting Program Cost Recovery Model

Mike Macdonell, Auditor General

June 1, 2023



- OAG's third performance audit report
- Identified as a related area of interest during audit of building permit fees
- Eight recommendations to improve the City's permitting program cost recovery model and support the long-term sustainability of program operations
- Action plan on recommendations provided by:
 - The Finance, Risk and Supply Chain Management (FRS) department
- We received cooperation throughout the audit

- Permitting program includes a range of permit and application types: building, development, rezoning, trades (e.g. plumbing, gas, electrical)
- The *Vancouver Charter* gives the City the authority to set fees for permits under regulatory by-laws and to set fees for applications for zoning by-law amendments
- 2022:
 - 37,224 building and development-related permit applications
 - \$72.2 million in fees

- Three departments hold broad responsibility for the administration of building and development permits and rezoning applications:
 - Development, Building and Licensing (DBL)
 - Planning, Urban Design and Sustainability (PDS)
 - Engineering Services (ENG)
- FRS Finance and Performance Measurement group is responsible for maintaining and updating the cost recovery model

- Fees intended to be set at a level to fully recover direct and indirect costs of administration
- Schedule of Fees annually updated based on analysis of forecast permitting revenues and anticipated costs using the cost recovery model
- Stabilization Reserve: used to fund the future liability associated with unprocessed permits, among other things

- Costs: all City services that support development and building-related activities including direct labour, technology, and overhead
- Revenue: permit fees charged to under the City's development and building-related permitting by-laws

Audit Objective

- To determine whether the City's permitting program cost recovery model was designed and applied to ensure the full costs of services were recovered and that the projected reserve fund balances were sufficient to stabilize future operations

Audit Scope and Period

- January 1, 2016 to June 30, 2022

In Scope

- Did the permit fee model reasonably comply with legislative and policy requirements?
- Did the permit fee model fully account for current and anticipated future costs and revenues of the permitting program?
- Was the model regularly reviewed and updated and was the permit fee schedule updated based on the cost recovery model?

In Scope (continued)

- Was the public engaged and were fee changes communicated?
- Did the City effectively achieve full cost recovery with the permitting fee program and did it maintain adequate reserve funds?
- Was analysis performed to inform improvements to related operations in DBL and PDS?

Not In Scope

- Permits outside the permitting program's cost recovery model (e.g. Engineering permits)
- Whether correct fees were charged and collected
- Permit processing times and enforcement
- The effectiveness of the City's current earned revenue transition and the accuracy of the deferred revenue balance

- 2016 to 2021, cost recovery model has misaligned cost and revenue components resulting in under-recovery
– 2021 \$12 million
- Funding from other sources will be required to complete outstanding permit work
- Unintended cross-subsidization between permit categories
- The City did not meet the audit objective

Legislative Requirements

- The City's fee setting approach generally complied with the *Vancouver Charter* and legal requirements, with some opportunities for improvement
- *The Charter* prohibits fees for subdivision and rezoning to exceed average cost of processing
- No review process in place to ensure fees for subdivision permits and rezoning applications were set in alignment with the *Charter*

Recommendation 1

The City should annually review and document its fees for subdivision permits and rezoning applications against the actual cost of processing those applications to ensure the fees charged do not exceed the average cost of processing similar applications.

Policy and Guidance and Fee-Setting

- Lack of documented guidance on the design and implementation of permitting program fees
- Annual Fee Increase Report included the City's objective, factors to be considered when setting fees, and Council's decisions from previous years

Recommendation 2

The City should establish and document clear, detailed guidance for the permitting program. In developing this guidance, management should seek policy direction from Council and should consider:

- The permitting program's alignment with the authorities set out in the Vancouver Charter and relevant by-law requirements;
- The timeframe over which the City intends to meet its objective (e.g., over one year or over several years);
- Whether it intends to recover the full cost of providing permitting services and under what circumstances the City might set a fee at more or less than 100 per cent of the full cost of service;
- The roles and responsibilities of each department with respect to permit fee-setting, administration and meeting the permitting program's cost recovery objective;
- A target balance range for the permitting program reserve;
- The appropriate or targeted level of cost recovery for each permit category; and,
- A periodic review of this guidance.

Cost Recovery Model Design and Program Reserve Sufficiency

- Permit fees were set using a cost recovery model with misaligned cost and revenue components
- Could not accurately determine the actual cost recovery level of the permitting program
- 2021 estimated deficit of \$11.9 million
- Funding from other sources will be required to complete outstanding permit work
- The City made improvements in 2022

Recommendation 3

The City should accurately calculate the projected and actual level of permit fee cost recovery using earned revenues and adjust permit fees accordingly to ensure it meets its full cost recovery objective, in alignment with policy direction from Council.

Unprocessed Applications

- Did not perform a cost analysis of unprocessed permit applications
- Permit fees collected for unprocessed applications may not correspond to the cost of processing those applications

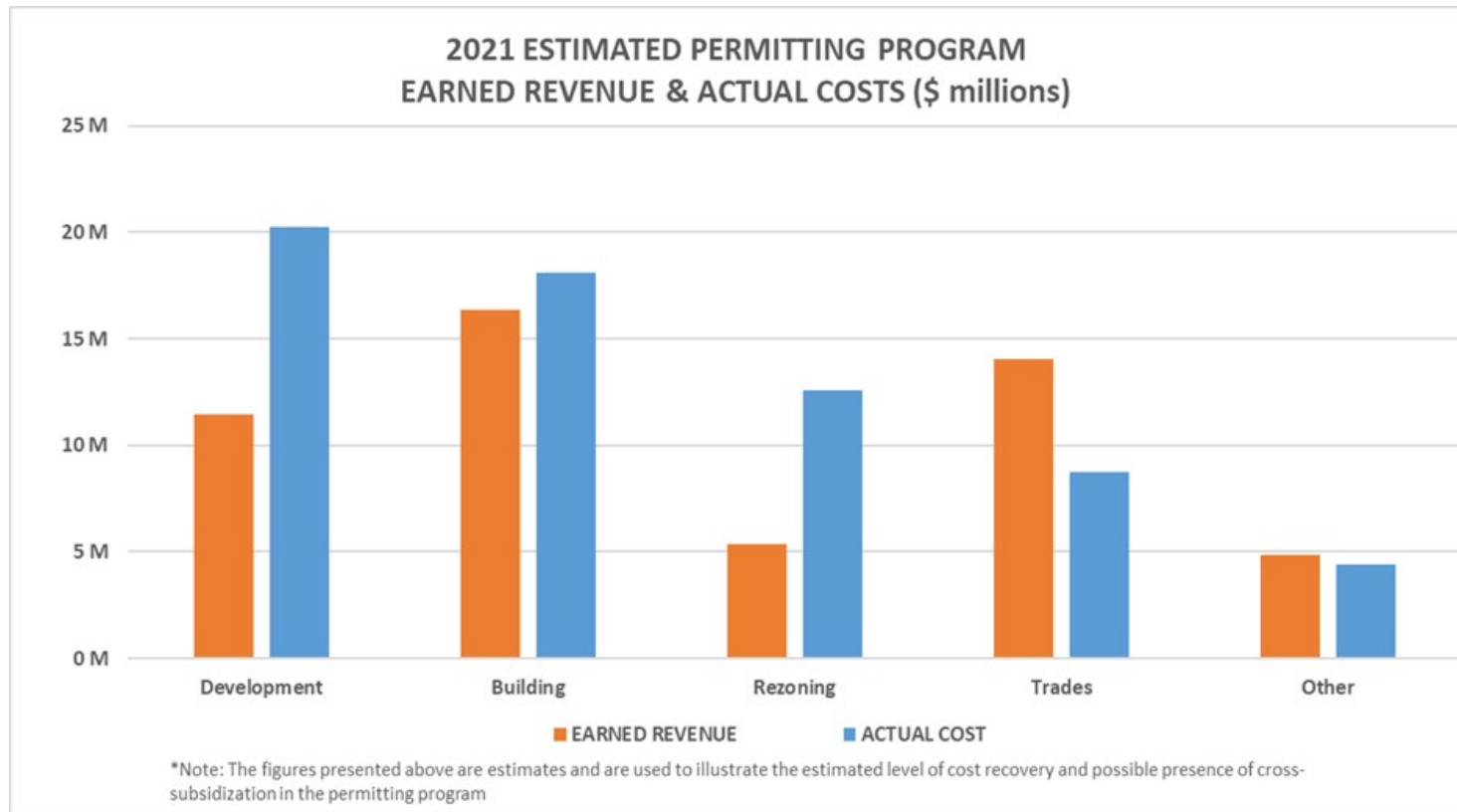
Recommendation 4

The City should annually calculate the projected cost of unprocessed permit applications and compare it to the deferred revenue balance. The City should develop a plan to address the surplus or deficit revealed by this comparison.

Level of Cost Recovery at Permit Category Level and Cross-subsidization

- Cross-subsidization occurs when fees collected from one permit category offset costs of other permit categories
- The City did not have guidance related to the appropriate level of cost recovery for each permit category
- Unplanned cross-subsidization between permit categories

Level of Cost Recovery at Permit Category Level and Cross-subsidization



Recommendation 5

The City should develop guidance on the appropriate target level of cost recovery for each permit category at the permit by-law level. Then, the City should assess the level of cost recovery for each permit category against the target and recommend to Council to adjust fees. This would improve the City's fee-setting ability and support public transparency.

Annual Fee Update

- Consistent and systematic approach to annually update the fee schedule
- The City did not publish details regarding the permitting program's reserve balance in the Fee Increase Report to Council

Recommendation 6

The City should publish additional information about the permitting program including the reserve opening balance, net surplus/deficit, closing balance for the year, and levels and sources of subsidization, if any.

Cost and Revenue Components

- The City included relevant cost components in the cost recovery model; however, improvements are needed:
 - Did not identify costs based on permit attributes within each permit category (e.g. development type, size or complexity)
 - Revenue projection method did not account for other potential future variables

The City should enhance the cost and revenue components of its cost recovery model to enable more effective analysis by adding:

- A breakdown of costs by factors such as development type, size or complexity that aligns with the defined permit categories; and,
- Revenue projections that consider future economic factors, the City's development plans and industry trends.

Financial Analysis

- The City did not conduct a long-term permitting program financial analysis

Recommendation 8

The City should develop cost and revenue projections that extend beyond one year in order to support analysis of the permitting program's long-term self-sufficiency.

- THAT the Auditor General Committee receive the Auditor General's report "The Permitting Program Cost Recovery Model", dated May 2023
- FURTHER THAT the report's eight recommendations be endorsed

Management Comments