



REPORT

Report Date: June 1, 2023
Contact: Mike Macdonell
Contact No.: 604.873.7134
RTS No.: 15635
VanRIMS No.: 08-2000-20
Meeting Date: June 13, 2023
[Submit comments to Council](#)

TO: Vancouver City Council
FROM: Chair of the Auditor General Committee
SUBJECT: Auditor General Committee Recommendations Transmittal Report

RECOMMENDATION

THAT Council approve the recommendations from the June 1, 2023, Auditor General Committee meeting as follows:

THAT the City Council receive the Auditor General's Report "The Permitting Program Cost Recovery Model", dated May 2023;

FURTHER THAT the above-noted report's eight recommendations be endorsed.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

Per the Auditor General By-law s.3.14, the Auditor General reports directly to Council.

Pursuant to s.161 of the *Vancouver Charter*, the Auditor General Committee was appointed to among other things, provide oversight to the Auditor General on behalf of Council.

BACKGROUND

At the Auditor General Committee (AGC) meeting on June 1, 2023 the Committee considered one report and made the recommendations identified above.

The report is attached for reference:

Appendix A: "The Permitting Program Cost Recovery Model" Report dated May 2023 and presented to the June 1, 2023 AGC Meeting.

CONCLUSION

This Report transmits the recommendations by the Auditor General Committee at its meeting on June 1, 2023, for Council's consideration.

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REPORT

Report Date: May 25, 2023
 Contact: Mike Macdonell
 Contact No.: 604.873.7134
 RTS No.: 15768
 VanRIMS No.: 08-2000-20
 Meeting Date: June 1, 2023
[Submit comments to Council](#)

TO: Auditor General Committee
 FROM: Auditor General
 SUBJECT: The Permitting Program Cost Recovery Model Audit Transmittal

RECOMMENDATION

THAT the Auditor General Committee receive the Auditor General's Report "The Permitting Program Cost Recovery Model", dated May 2023;

FURTHER THAT the above noted report's eight recommendations be endorsed.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

- Per the [Auditor General By-law 3.14](#), the Office of the Auditor General will report directly to Council on any investigations or inquiries conducted by the Auditor General.
- On [November 4, 2020](#), pursuant to [Section 161](#) of the *Vancouver Charter*, Council established an Auditor General Committee to provide oversight to the Office of the Auditor General on behalf of Council.

BACKGROUND

On May 25, 2023, the Auditor General released his report "The Permitting Program Cost Recovery Model".

Under the Auditor General Committee's Terms of Reference C.2.a.iv, the Committee's responsibilities include reviewing the final reports of the Auditor General and reporting to Council on the work of the Auditor General as well as any recommendations of the Auditor General Committee related to or supplemental to those of the Auditor General's reports, findings and investigations.

Further, C.2.b of the Committee's Terms of reference require it to meet within 30 days of receiving any report or other communication from the Auditor General requiring review or decision.

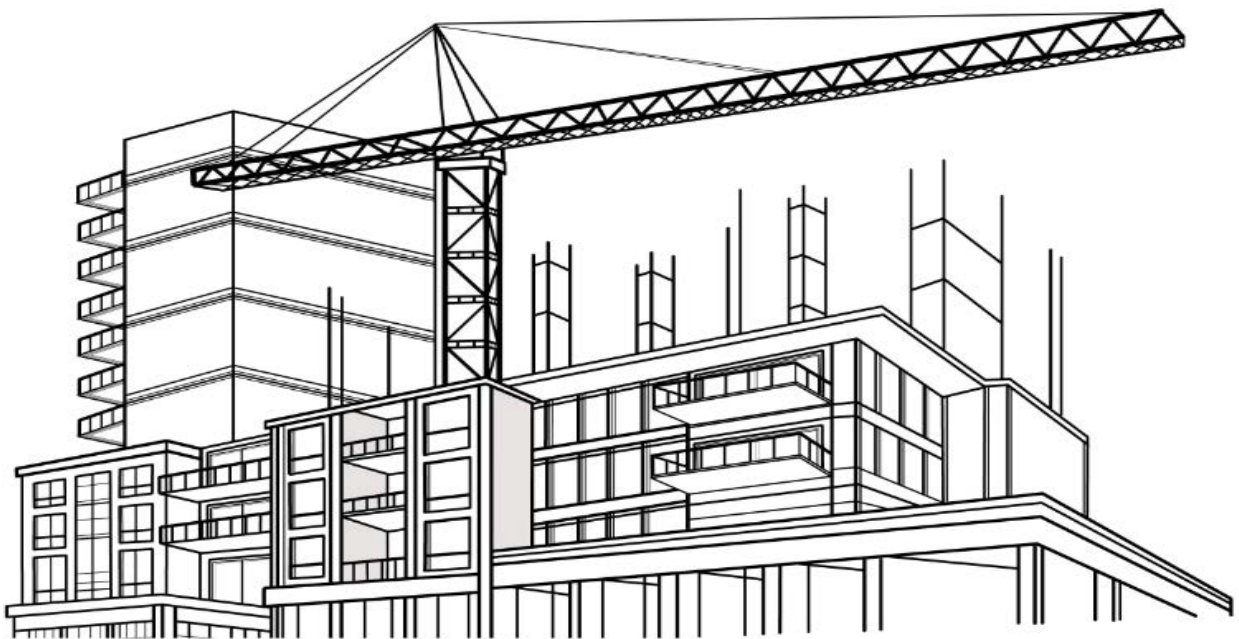
CONCLUSION

This Report transmits the Auditor General's Report "The Permitting Program Cost Recovery Model", dated May 2023.

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Audit of

The Permitting Program Cost Recovery Model



An independent auditor's report prepared in accordance with the Canadian Standard on Assurance Engagements 3001 published by the Chartered Professional Accountants of Canada

May 2023

Performance Audits

Performance audits are independent, objective and systematic assessments of how well government is managing its activities, responsibilities and resources. We select audit topics on the basis of their significance. While the Office of the Auditor General (OAG) may comment on policy implementation in a performance audit, we do not comment on the merits of a policy.

Performance audits are planned, performed and reported in accordance with professional auditing standards and OAG policies. They are conducted by qualified auditors who:

- Establish audit objectives and criteria for the assessment of performance;
- Gather the evidence necessary to assess performance against the criteria;
- Report both positive and negative findings;
- Conclude against the established audit objectives; and,
- Make recommendations for improvement when there are significant differences between criteria and assessed performance.

Performance audits contribute to a public service that is ethical and effective and a civic administration that is accountable to taxpayers and its elected officials.

Message from the Auditor General

To the Mayor and Council of the City of Vancouver,

I am pleased to present this report on my office's performance audit of the City's Permitting Program Cost Recovery Model.

Local governments regulate the construction and renovation of structures to ensure the safety of occupants and achieve policy objectives. The issuance of permits is an important early step in this regulatory process. Permit applicants are required to pay fees in accordance with a Council approved fee schedule. Following the "user pay" principle, fees charged by the City are intended to fully recover all costs associated with permit processing and issuance. The City's effectiveness in achieving its cost recovery objective is the subject of this audit. The topic was not part of my original audit plan but was instead identified as an issue when we conducted our audit of the City's administration of building permit fees, which was published this past January.

We identified opportunities for improvement in relation to all of our audit criteria. Of particular note, the data used to determine whether full costs were recovered was insufficient, resulting in less than full cost recovery and the need for subsidization from other revenue sources. While the program operated within statutory and legal requirements, the program was managed at a very high level, resulting in unplanned cross-subsidization between permit categories; something we believe should be proactively managed. As a result, we concluded that the City did not meet the audit objective and have made eight recommendations to improve the permitting program cost recovery model.

Four City departments, (Finance, Risk and Supply Chain Management; Development, Building and Licensing; Planning, Urban Design and Sustainability; and Engineering Services) were involved in the audit, and I express my appreciation to each for their assistance and full cooperation. I also thank the Finance, Risk and Supply Chain Management department for the positive response to our recommendations, which is provided in Appendix A.

Mike Macdonell, FCPA, FCA
Auditor General
Vancouver, B.C.
25 May 2023

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Executive Summary

Summary

1. Our audit objective was to determine whether the City of Vancouver's (the City's) permitting program cost recovery model was designed and applied to ensure that the full costs of services were recovered and projected reserve fund balances were sufficient to stabilize future operations.
2. The City's approach to setting permit fees to recover costs generally complied with statutory requirements and legal requirements set out in Canadian case law. However, we noted that to ensure compliance with the *Vancouver Charter* (the *Charter*), the City should have review processes in place specifically for rezoning applications and for subdivision permit applications. The City should also have documented, comprehensive guidance in areas such as departmental roles and responsibilities, circumstances where the City might set a fee above or below full costs, and alignment with authorities set out in the *Charter*.
3. Until 2021, the City set permit fees using a cash revenue based cost recovery model with misaligned cost and revenue components. We noted that the City made several changes to incrementally improve the accuracy of the model throughout the audit period; however, it ultimately could not accurately determine the permitting program's cost recovery levels. For 2022, the City moved to an earned revenue approach that better aligned cost and revenue components. The City indicated that, based on its current estimates of work in process, funding from other sources would be required to complete outstanding permit work. Although the City followed a systematic approach to its annual fee updates, it did not undertake long-term program financial analysis and appropriately leverage the results of this analysis to support the program's self-sufficiency.
4. Given these findings, the City did not meet our audit objective. We believe implementing the eight recommendations identified in this report will improve the City's permitting program cost recovery model and support the long-term sustainability of program operations.

Background

5. The City regulates building and development activity by issuing permits to ensure that projects comply with life safety, livability, accessibility and sustainability requirements. The *Charter* gives the City the authority to set fees for these permits. To do so, the City uses a cost recovery model as a financial framework to track permitting program costs and fee revenues. The model groups together all categories of development and building-related permits into a broad permitting program. The City sets permit fees to recover direct and

indirect costs associated with administering the program and its services, aiming for cost and revenue neutrality at the program level.

6. The City's Development, Building and Licensing (DBL), Planning, Urban Design and Sustainability (PDS) and Engineering Services (ENG) departments hold broad responsibility for the permitting program. Finance, Risk and Supply Chain Management (FRS) is responsible for maintaining and updating the cost recovery model. According to the City's information, in 2022, the City received 37,224 development and building-related permit applications and collected \$72.2 million in fees.

What We Examined

7. This audit covered the period from January 2016 through June 2022. We examined the City's permitting program cost recovery model, which included planning, development and building-related permits. This audit did not examine permit processing times, whether the correct permitting fees were charged and collected, the effectiveness of the City's current transition from cash to earned revenue financial statement reporting, or other non-development and building-related permits for which the City may collect fees.

What We Found

Policy and Guidance on Fee-setting

8. The City's approach to setting permit fees to recover costs generally complied with statutory requirements and legal requirements set out in case law. However, we noted the following opportunities for improvement:
 - The City did not have a review process in place to proactively ensure its fees for subdivision permits and rezoning applications were in compliance with specific provisions in the *Charter* that limit the level of fees of these two types; and,
 - The City's practice of grouping permits and fees into a broad permitting program means the City may not be able to ascertain the degree to which a particular fee raises excess or insufficient revenue.
9. The City documented its objective of full cost recovery and factors to consider when setting fees in its reports to Council. However, the City did not have comprehensive guidelines on program design and implementation considerations such as circumstances where the City might set a fee above or below the full cost for a specific service. In addition, the City did not have defined departmental roles and responsibilities with respect to meeting its cost recovery objective. The absence of documented guidance could result in inconsistent practices and knowledge gaps between permitting departments and their staff and could detract from program performance and public transparency.

Recovery of Costs and Program Fund Sufficiency

10. The City's ability to demonstrate the level of cost recovery for the permit program was compromised by the design and data limitations of its cost recovery model, which misaligned the cost and revenue components used to set permit fees. In 2022, the City began to adjust its processes to prepare for a forthcoming change in financial reporting standards. This shift will mitigate the design and data limitations, but ultimately, through much of the audit period, the City could not accurately determine the level of cost recovery.
11. As of December 31, 2021, the City earmarked \$84.8 million of the City's general reserve (\$162.2 million) for the permitting program. Because the amount contributed to the general reserve from permit fees was less than the amount earmarked for the permitting program, the City indicated that the shortfall would be funded from other sources. However, the City could not accurately determine the amount of this shortfall due to the design and data limitations of the cost recovery model.
12. In addition, we noted that:
 - The City estimated the revenue collected from unprocessed permit applications but did not perform a cost analysis to determine if the collected fees were sufficient to cover the costs of processing those applications; and,
 - Although the City conducted some analysis at the permit category level, it did not have guidance related to the appropriate level of cost recovery for permit categories. Incorporating cost recovery targets at the permit category level and making the analysis publicly available would better enable the City to adjust fees in alignment with strategic goals, respond to fluctuations in permit volume, inform program operations and, overall, further promote public transparency of costs and revenues associated with different permits issued by the City.

Annual Fee Update, Cost & Revenue Components and Financial Analysis

13. The City followed a consistent and systematic approach to update its permit fee schedule annually using a cost recovery model, provided the public an opportunity to provide feedback to Council on proposed fee changes, published annual changes to permit fees and included relevant cost components in the cost recovery model. However, we identified the following opportunities for improvement:
 - Although the City performed some data and financial analysis at the program level to inform and improve program operations, it did not perform long-term financial analysis to identify and mitigate potential risks and understand the long-term effects of current changes on the permitting program; and,

- The City did not publish details regarding the permitting program's reserve balance in the Fee Increase Report to Council.

Recommendations

14. The recommendations listed in Exhibit 1 are intended to assist the City in ensuring that its permitting program is sustainable, fully compliant with all requirements and consistent with the City's goals and priorities while informing decision makers and the public. In our view, implementation of these recommendations will help the City better understand the level of cost recovery of its permitting program and enable it to plan for the program's future stability. The City has developed action plans (See Appendix A) in response to these recommendations.

Exhibit 1: Summary of Recommendations

Themes	Recommendations
<p>Policy, Planning, and Guidance</p>	<ol style="list-style-type: none"> <li data-bbox="508 873 1406 1066">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. <li data-bbox="508 1066 1406 1785">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: <ul style="list-style-type: none"> <li data-bbox="565 1203 1373 1276">• The permitting program's alignment with the authorities set out in the <i>Vancouver Charter</i> and relevant by-law requirements; <li data-bbox="565 1283 1349 1356">• The timeframe over which the City intends to meet its objective (e.g., over one year or over several years); <li data-bbox="565 1362 1386 1478">• 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; <li data-bbox="565 1484 1370 1600">• The roles and responsibilities of each department with respect to permit fee-setting, administration and meeting the permitting program's cost recovery objective; <li data-bbox="565 1606 1295 1640">• A target balance range for the permitting program reserve; <li data-bbox="565 1646 1378 1719">• The appropriate or targeted level of cost recovery for each permit category; and, <li data-bbox="565 1726 1013 1759">• A periodic review of this guidance.

Themes	Recommendations
Cost Recovery and Program Reserve Sufficiency	<p>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.</p>
	<p>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.</p>
	<p>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.</p>
Financial Analysis	<p>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.</p>
	<p>7. The City should enhance the cost and revenue components of its cost recovery model to enable more effective analysis by adding:</p> <ul style="list-style-type: none"> • 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.
	<p>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.</p>

Main Report

1. Introduction

1.1 Background & Context

The Development and Building-Related Permitting Program

15. The City of Vancouver (the City) regulates building and development through a variety of by-laws. The City issues permits in accordance with these by-laws to ensure that projects comply with life safety, livability, accessibility and sustainability requirements. Projects requiring permits include new construction, structural repairs to existing facilities and changes to land use or occupancy on private property. Generally, a project that requires a permit should not commence until a permit has been issued by the City.

16. The City's permitting program includes a range of permit and application types:
 - **Building permits** ensure building projects (e.g., alteration, construction, repair of a building) comply with the *Vancouver Building By-law* to meet life safety, livability, accessibility and sustainability requirements;
 - **Development permits** ensure the livability and functionality of neighbourhoods by regulating the built form (e.g., size, location) and ensuring land uses are appropriately located. The *Zoning and Development By-law* regulates development;
 - **Rezoning applications** seek to change an area's zoning to support future development. Changes are made through the enactment of amendments to *Vancouver's Zoning and Development By-law*;
 - **Trades permits** ensure plumbing, gas, electrical and fire sprinkler systems are installed, designed and sized according to relevant codes; and,
 - **Other development and building-related permits** ensure compliance with other by-laws (e.g., subdivision applications, tree removal and occupancy). These do not include activities unrelated to development and building, such as street and sidewalk usage permits.

17. The City charges fees for its permits. Permit fees are determined by City Council and included in a fee schedule established in its by-laws. See Exhibit 2 for the number of permit fees the City has established for development and building-related permits.

Exhibit 2: Count of 2022 Fee Permits by By-law Categories

Permit By-Law Categories	# of Fee Permits
Zoning & Development Schedule 1 – Development Permits	53
Zoning & Development Schedule 2 – Zoning By-Law Amendments	42
Subdivision	11
Building Part A – Building	33
Building Part B – Plumbing	25
Building Part C – Operating Permits	4
Building Part D – Mechanical Permits	5
Green Demolition	2
Electrical	46
Gas Fitting	7
Noise Control	2
Secondary Suite Inspection Fees	2
Protection of Trees	2
Sign Fee	14
Miscellaneous (Planning)	35
Total # of Fees	283

Source: 2022 Schedule of Fees for Development and Building-Related Permits

The Permitting Program Cost Recovery Model

18. The City's development and building-related permitting program (permitting program) cost recovery model is a financial framework used to track permitting program costs and fee revenues and to inform permit fee-setting. The City designed this model at the permitting program level, which grouped together all development and building-related permits. The cost recovery model enables the City to set fees to cover the costs of delivering these permitting services.

19. Fees charged through the City's permitting program are intended to recover direct and indirect costs associated with administering the program and its services, aiming for cost and revenue neutrality at the permitting program level. The program is designed for permit users to pay the full costs of delivering permitting services (the user-pay principle).

20. The *Vancouver Charter* (the *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. Exhibit 3 shows figures provided by the City for the number of applications received and fees collected for 2021 and 2022.

Exhibit 3: City's 2021 & 2022 Permit Volumes and Fees Collected

Year	Number of Applications Received	Fees Collected (in \$ millions)
2021	34,819	\$69.3
2022	37,224	\$72.2

Components of the City's Cost Recovery Model

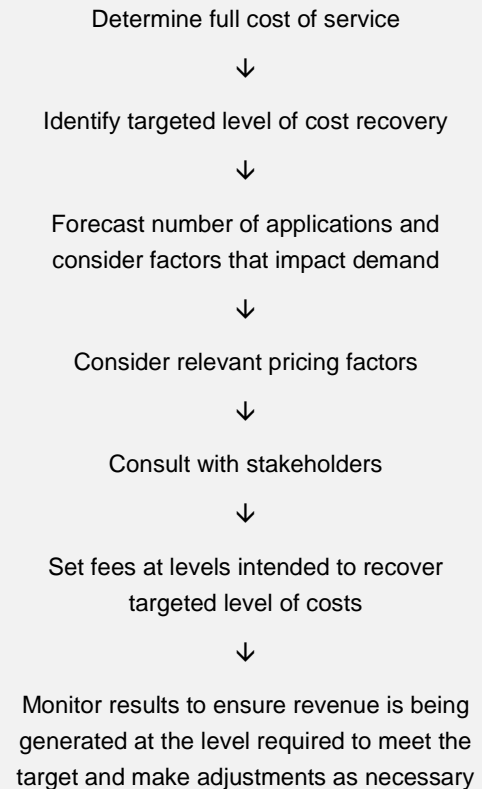
Permitting Program Costs

21. Permitting program costs include all City services that support development and building-related activities. This includes direct labour costs and indirect costs such as technology, infrastructure and overhead charges. For example, costs include the staffing time required to review and process permit applications and costs related to the maintenance and upgrade of permitting technology and online systems.

Permitting Program Revenues

22. Permitting program revenue comes from permit fees charged to fulfill the City's development and building-related permitting by-laws. Applicants are required to pay upfront permit application fees calculated in accordance with the City's by-laws such as the *Zoning and Development By-law* and the *Vancouver Building By-law*. The *Schedule of Fees for Development & Building-Related Permits* (the *Schedule of Fees*) lists the permitting program fees under various by-laws.

Guide to Setting Cost-Based User Fees



Source: Adapted from Government of Canada - Guide to Establishing the Level of Cost-Based User Fee

23. Fees are generally payable at the time of application. The City collects permit application fees based on the permit type. Fees are calculated based on factors such as the estimated value of the work, location, gross floor area and site area.

Permitting Reserves

24. The City's *Reserve Policy* requires the establishment of financial reserves for specific purposes. The policy states that reserves are a key component of a prudent, balanced financial management plan to meet both short-term and long-term financial objectives of the City.
25. The City has four reserve categories, one of which is the Revenue Fund Stabilization Reserve (the Stabilization Reserve). The City's *Reserve Policy* states that the Stabilization Reserve provides "contingencies for unforeseen emergencies, unfunded liabilities and variability of revenue and expenses." The target for the Stabilization Reserve is eight to fifteen per cent of non-utility revenues. The Stabilization Reserve includes permitting program reserve funds, which are used to fund the future liability associated with unprocessed permits, as fees are collected upfront but some permits are processed after the year the City receives the fees.

Annual Permit Fee Updates

26. The City sets, reviews and updates the *Schedule of Fees* annually based on an analysis of forecasted permitting revenues and anticipated costs using the cost recovery model. Staff present the proposed fee updates to City Council (Council) for its approval. Once approved, the City publishes the *Schedule of Fees* on its website.
27. As summarized in Exhibit 4, fees in most categories increased by nine per cent in 2018 and by 12 per cent in 2019. In other recent years, fee increases have been three to five per cent in most categories, approximating the rate of inflation.

Exhibit 4: Summary of Permitting Program Fee Updates, 2018-2022

Year	Summary of Permitting Program Fee Updates
2018	9% in most fee categories with some complex development fees increasing by 19% to add 42 staff members in 2018
2019	12% in most fee categories and 15% to 22% for a small number of rezoning, building and development fees and a 55% increase to one rezoning fee to add 42.5 staff members
2020	3% in most fee categories to add 25 staff members to deliver on key Council priorities and online transformation. Specific fee adjustment to rezoning and development fee by-law
2021	3% in most fee categories due to business adjustment costs to transition staff to work remotely
2022	5% in most fee categories to cover cost increases related to salaries and benefits

Source: 2022 Fee Increases for Rezoning, Development, Building and Other Related Permits

Roles and Responsibilities

Permitting Departments

28. The City's Development, Building and Licensing (DBL), Planning, Urban Design and Sustainability (PDS) and Engineering Services (ENG) departments hold broad responsibility for the administration of building and development permits and rezoning applications. This includes recommending updates to permitting-related by-laws for Council approval.
29. DBL's key permitting process responsibilities include:
 - Coordinating and administering permit approvals, including those related to re-zoning, development and building on private property;
 - Reviewing building permit and development permit applications, including engaging other departments (e.g., PDS and ENG) when additional subject matter expertise is required; and,
 - Overseeing and operating the Services Centre that provides client services, handles enquiries and routes permit applications.
30. PDS' key permitting process responsibilities include:
 - Reviewing applications for development permits;

- Providing zoning advice to prospective applicants through the pre-application and enquiry process;
 - Engaging with applicants in the policy enquiry process on development-related proposals that do not comply with zoning policy and by-laws; and,
 - Reviewing rezoning applications and conducting required public consultation, public hearings and sub-studies related to zoning amendments.
31. ENG's key permitting process responsibilities include reviewing development permits and rezoning applications.
32. Several other departments are also involved in reviewing and processing development and building-related permit applications, including:
- Legal Services;
 - Arts, Culture and Community Services;
 - Real Estate and Facilities Management; and,
 - Vancouver Fire Rescue Services.
33. These departments are collectively referred to in this report as the permitting departments.

Finance, Risk and Supply Chain Management Department

34. The Finance and Performance Measurement group, within the Finance, Risk and Supply Chain Management (FRS) department, is responsible for maintaining and updating the cost recovery model. This includes coordinating an annual review of the *Schedule of Fees* for rezoning, development, building and other related permits. FRS collects input from permitting departments, including program cost estimates, permit volumes and revenue projections and substantiates proposed fee adjustments presented for Council approval.
35. FRS is also responsible for coordinating a labour survey of permitting departments to update permitting program labour costs.

Permitting Improvement Program (PIP)

36. In 2021, the City initiated the Permitting Task Force to identify opportunities to reduce permit processing times and to help complete existing permit applications received but not yet processed (unprocessed permit applications). The task force identified ten improvement areas, including a review of development and building-related permitting processes. It also called for a review of the permitting program cost recovery model and compliance with new upcoming revenue recognition financial reporting standards.

Earned Revenue Transition in 2023

37. Effective April 2023, the Public Sector Accounting Board (PSAB), an independent body that sets financial reporting standards for public sector organizations, updated its requirements for revenue recognition through section PS 3400 of its standards.
38. In response to this change, the City developed a plan to revise its method of recognizing permitting revenues by the end of 2023. The City's plan includes changing from its current cash basis of revenue recognition to an earned basis.
39. To enable this change, the City defined milestones for when to recognize permitting revenues based on the stage of completion of permit applications within the permitting process.
40. While this audit sought to understand how the transition to earned permit fee revenue impacted the permitting program cost recovery model, it did not examine the effectiveness of the earned revenue transition or the accuracy of the earned and deferred revenue balance.

Revenue Terms Explained

Cash basis of revenue recognition – This revenue recognition method records permit application fees when they are collected, regardless of when the permitting work associated with the fee is completed.

Earned basis of revenue recognition – This revenue recognition method records permit application fees as the City completes its permitting work associated with the fee, regardless of when the fees are collected.

Deferred revenue – Revenue from permit applications that have been received but have not yet been fully processed or started within a given period. In this report, these permits are referred to as "unprocessed applications."

1.2 About the Audit

41. The audit objective was 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.
42. The Office of the Auditor General's (OAG) 2022 three-year audit plan identified "building permit fees" as a performance audit topic, which was reported in January 2023. In the planning stages of the building permit fee audit, the City's permitting cost recovery model was identified as a related area of interest. Since the model covers the entire permitting program and not just building permits, we undertook this separate audit of the permitting program's financial sustainability.

43. The audit covered the period of January 2016 to June 2022 and included materials produced prior to January 2016 such as policies, guidance and administrative processes that were relevant during the audit period. We conducted our examination work from August 2022 to March 2023 and completed the audit on April 12, 2023.
44. The audit scope did not include an examination of:
- Fees collected for permits outside of the permitting program's cost recovery model;
 - Whether the correct fees were charged and collected from applicants¹;
 - Permit processing times; and,
 - The effectiveness of the City's current earned revenue transition and the accuracy of the earned and deferred revenue balance.
45. We used several methods to obtain sufficient and appropriate audit evidence. In addition to interviewing key internal (managers and staff) and external stakeholders, we observed and examined relevant processes and documentation and undertook analytical procedures.
46. For more on this audit, please refer to [Appendix B: About the Audit](#).

¹ In 2022, we undertook an audit to examine the accuracy of building permit fees and associated administrative processes and practices.

2. Findings, Conclusions and Recommendations

Summary

47. We concluded that the City did not meet our audit objective of whether the City's permitting program cost recovery model was designed and applied to ensure the full costs of services were recovered and projected reserve fund balances were sufficient to stabilize future operations.
48. We found that the design and data limitations in the cost recovery model compromised the City's ability to meet its full cost recovery objective and the City historically set fees based on a model with misaligned cost and revenue components. Due to this misalignment, the City could not accurately determine the permitting program reserve fund balance. Therefore, we could not conclude whether the City had sufficient reserve funds for future operations. However, the City indicated that, based on its current estimates of work in process, funding from other sources would be required to complete outstanding permit work. The City also indicated that it began to address the design and data limitations in 2022.
49. The City's approach to setting permitting fees to recover costs at the permitting program level, which grouped together all development and building-related permits, generally complied with the *Charter* and legal requirements set out in Canadian case law; however, we identified opportunities for improvement. By grouping permits and fees under a broad permitting program, it was difficult for the City to determine whether specific fee categories raised excess or insufficient revenue. In addition, the *Charter* requires that the amount charged for subdivision permit fees and rezoning application fees not exceed the average cost of processing. Fees collected for subdivision and rezoning applications did not exceed the cost of processing these applications since 2018. However, the City did not have a review process in place to ensure compliance with the *Charter*. The City also lacked a policy or documented guidance for staff on the design and implementation of its permitting program fees and did not have defined departmental roles and responsibilities related to its cost recovery objective.
50. The City followed a consistent and systematic approach to annually update its permitting fee schedule using the cost recovery model. The City also provided the public an opportunity to provide feedback to Council on proposed fee changes and published annual permit fee changes. The City included relevant cost and revenue components in the cost recovery model; however, we identified opportunities for improvement related to the breakdown of the model's cost components and revenue projection method.

51. The City performed data and financial analysis at the permitting program level to inform and improve program operations. However, the City did not perform long-term financial analysis of the permitting program to identify and mitigate potential financial risks and understand the long-term effects of current fee changes. While the City conducted some analysis of cost recovery at the permit category level, it did not have guidance related to the appropriate level of cost recovery at the permit category level.

2.1 Policy and Guidance on Fee-Setting

52. The *Charter* grants the City the authority to set fees and issue development and building-related permits through regulatory by-laws such as the *Zoning and Development By-law* and the *Vancouver Building By-law*.

53. In addition to the requirements set out in the *Charter*, the City, when imposing user fees, must satisfy Canadian legal requirements related to user fees established in relevant case law, including:

- There must be a reasonable correlation between the fees charged and the cost of providing the service; however, user fees are not required to correspond exactly to the cost of the relevant service;
- User fees must be used to cover or offset the cost of the related service, whether cost recovery occurs in whole or in part, and cannot be used for an unrelated public purpose; and,
- A surplus is acceptable so long as the City makes reasonable attempts to match fee revenues with the administrative costs of the regulatory scheme.

54. Apart from the legal requirements noted above, many aspects of fee-setting, design and implementation are at the discretion of the City, such as identifying a targeted level of cost recovery and considering relevant pricing factors.

55. The City published its objective to achieve full cost recovery for its permitting program in its *Fee Increases for Rezoning, Development, Building and Other Related Permits* report (Fee Increase Report), stating, “Cost and revenue neutrality for the permitting program is targeted at the program level and is intended to recover both direct and indirect costs.”

What we looked for

56. We examined whether the City’s permit fee model complied with the *Charter* and whether the City took reasonable steps to ensure its permit fees aligned with legal requirements set out in relevant case law.

57. We looked for the City to have documented guidance for staff on the design and implementation of the permitting program and permit fees to support the operations of the program and the cost recovery objective and to promote public transparency and accountability. We also looked at whether the City had clearly laid out departmental roles and responsibilities in relation to achieving the cost recovery objective.

What we found

2.1.1 The City's approach to setting permitting fees to recover costs generally complied with the Vancouver Charter and legal requirements set out in case law, with some opportunities for improvement

58. User fees must be used to cover or offset the cost of the service provided, whether cost recovery occurs in whole or in part, and cannot be used for another public purpose. The City aimed to set permit fees at levels that covered the full cost of providing permitting services and used permit revenues solely for permitting services. This approach generally complied with legal requirements related to fee-setting as established in case law and the requirements set out in the *Charter*.
59. Relevant case law establishes that revenue from user fees should generally only cover the operating and capital costs of the services associated with that fee. Excess revenue from a permit fee for one service should not be used to subsidize the operating and capital costs associated with other, unrelated services, as applicants for some types of permits would effectively be paying to support unrelated services. The City's practice of grouping permits and fees under a broad permitting program means the City may not be able to ascertain the degree to which a particular fee raises excess or insufficient revenue for that service.
60. The authority for different types of permit fees resides in several sections of the *Charter*. For the most part, the *Charter* does not provide specific guidance on setting fees for specific permits, and in those cases, the general legal requirements mentioned above are relevant. However, in the case of subdivision permit fees (s. 292(1.1)) and rezoning application fees (s. 566(2)), the *Charter* requires that the amount charged must not exceed the average cost of processing (inclusive of inspection, advertising and administration) that is usually related to similar applications. These sections impose additional limitations on the fees the City can collect for subdivision permits and rezoning applications.
61. The City did not have a review process in place to ensure fees for subdivision permits and rezoning applications were set in alignment with the *Charter*. However, management performed an analysis of fees by permit categories that included rezoning and subdivision, and their analysis showed that fees collected for subdivision permits and rezoning

applications did not exceed the cost of processing these applications during the audit period, with the exception of 2017. The City did not have a cost recovery model in place in 2017 as noted in section 2.3.1 below.

62. Given the statutory requirements, it would be prudent for the City to have a process in place to periodically review its subdivision permit fees and rezoning application fees against the costs actually incurred in relation to those applications. This would ensure a reasonable correlation between the fee charged and the average cost of processing each type of application. To support this, it would be reasonable for the City to track the level of cost recovery at the by-law level for both subdivision and zoning. This practice would allow the City to demonstrate that the fees it charges do not exceed the average cost of processing applications. It would also help ensure the City remains in compliance with the *Charter* by adjusting fees should they diverge from actual costs.

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.

2.1.2 The City lacked documented guidance on the design and implementation of permitting program fees, including departmental roles and responsibilities with respect to meeting the cost recovery objective

63. The legal framework leaves many details around design and implementation of permit fees to the discretion of the City, such as identifying a targeted level of cost recovery and considering relevant pricing factors. To uphold public transparency, promote accountability and foster consistent practices across the permitting departments, policy and practice decisions should be appropriately documented. The City published a Fee Increase Report annually that included the City's objective, factors to be considered when setting fees and Council's decisions from previous years. The City's cost recovery objective is to recover direct and indirect costs associated with administering the program and its services through permit fees at the program level. However, the City did not have comprehensive guidelines covering design and implementation elements such as the City's target for full cost recovery over a specific period and roles and responsibilities of permitting departments. In addition, we could not clearly determine under what circumstances the City might set a fee at more or less than 100 per cent of the full cost of services, the target balance range for the permitting program reserve and, the target level of cost recovery for each permit category.

64. The absence of documented guidance can result in inconsistent practices and knowledge gaps between permitting departments and their staff and can detract from program performance and public transparency.
65. Multiple departments are integrally involved in providing the services and managing cost recovery within the permitting program. Some permit types required involvement from multiple departments, yet we found that the City lacked clear guidance as to who was responsible for administrating how costs and fees were set, and there was no clear line of responsibility for each permit category. The City has identified the complex decision-making and governance process within the permitting program as a systemic issue as part of its Permitting Improvement Program.
66. Additionally, we found that the City did not have a target balance range for the permitting program reserve. This target range should be set to ensure that there are sufficient funds to sustain the program through a downturn in permitting activity. Having a sufficient reserve will help ensure that resources are available to meet service level requirements when permit activity returns to a higher level.

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.

2.2 Cost Recovery and Program Reserve Sufficiency

67. To meet its full cost recovery objective, the City based its permit fees on a cost recovery model that involved budgeting and tracking costs and revenues for all services that support development and building-related activities, known as the permitting program.
68. The permitting program reserve is part of the Revenue Fund Stabilization Reserve (the Stabilization Reserve). The City has a Reserve Policy in place that guides the use of the reserve. The Stabilization Reserve acts as a contingency for unforeseen emergencies, unfunded liabilities and revenue and expense variability.

What we looked for

69. Given the City's objective to achieve full cost recovery for its permitting program, we examined whether the City designed the cost recovery model to ensure that the full costs of services were recovered. We examined:
- The design of the cost recovery model including cost and revenue projections that drove fee-setting;
 - The actual level of cost recovery for the permitting program in comparison to the City's objective; and,
 - The City's estimated level of cost recovery for each permit category.
70. Additionally, we looked for the City to have annually maintained sufficient permitting reserve fund balances to stabilize future program operations.

What we found

2.2.1 The City set permit fees using a cost recovery model with misaligned cost and revenue components. Although the City addressed this misalignment in 2022, it did not meet its full cost recovery objective

71. The City set, reviewed and updated its permit fees annually based on an analysis of projected permitting revenues and anticipated costs using the cost recovery model. We found that from 2016 to 2021, the City utilized a permitting program cost recovery model with misaligned cost and revenue components. For a cost recovery model to be effective, the two underlying foundational components of the model, cost and revenue, should use

the same basis of measurement, such as permit applications received or applications processed. For example, the cost of processing 100 permit applications should be compared to the fees collected for 100 permit applications.

72. The City's cost projections were based on the total number of permit applications that the City estimated it could process (processing volume), using the full cost of operating the permitting program for a year. In contrast, revenue projections were based on the total number of applications projected to be received in a year (application volume), regardless of the number of applications that the City could process in that timeframe.
73. Because the cost recovery model used different cost and revenue components as a foundation, cost and revenue could not be meaningfully compared. With this model, the City could not accurately calculate the program's projected level of cost recovery and it managed the permitting program based on inaccurate data. As a result, we could not determine whether permit fees set based on this model over or under recovered costs.
74. In 2022, the City started projecting revenue using both processing and application volumes. Although this allowed the City to align the 2022 cost recovery model's projected cost and revenue components, the City did not set permit fees at a level that would recover the full costs of the permitting program. Management recommended to Council to set fees below cost recovery and to offset the program's projected deficit. Management also requested approval to draw \$10 million from the City's Stabilization Reserve². While it is legally permissible to set fees below cost recovery, doing so did not allow the City to meet its full cost recovery objective. Although management identified several measures to reduce the

Example 1: Cost and Revenue Misalignment

Assumption: It costs the City \$1 to issue a permit and applicants are charged \$1 per permit.

Scenario: It costs the City \$100 to process 100 permits, but the City received 120 permit applications and collected \$120 in permit fees.

Analysis: The City collected \$120 in permit fees (cash revenue basis), but processed only \$100 worth of permits (earned revenue basis), which corresponds to the 100 permits it processed.

Result: The misaligned model compared program cost to cash revenue, which had two different underlying bases of measurement (100 permits processed for cost and 120 permit applications for revenue). This could give an impression that the program is generating a surplus of \$20 when that is not the case.

² Source: 2022 Fee Increases for Rezoning, Development, Building and Other Related Permits

projected deficit moving forward (e.g., Permitting Task Force initiatives, permitting program process re-design), it did not have a plan to meet the full cost recovery objective through program fees and activities alone.

2.2.2 The City could not accurately determine the actual cost recovery level of the permitting program

75. The City recorded actual revenue and costs to determine the permitting program's surplus and deficit. However, during the audit period, the City recorded revenue when permit fees were collected (cash revenue basis), rather than when applications were processed (earned revenue basis) and costs were recorded based on the full costs of operating the permitting program for the year.
76. By recording revenue this way, the City could not accurately determine the program's annual surplus or deficit. This also meant that the City could not calculate with certainty the amount to be transferred to the permitting program reserve. Therefore, we could not conclude if the projected reserve fund balances were sufficient for future permitting program operations.
77. Management indicated its practice of recording revenue on a cash basis followed the financial reporting standards in place during our audit. However, cash revenue data recorded for financial reporting purposes was not appropriate to inform permitting program fee-setting. The City should have aligned revenue and cost in its financial analysis to satisfy its cost recovery objective.
78. Recent changes to financial reporting standards will require the City to shift to recognizing revenue on an earned revenue basis, effective April 2023. The City plans to be compliant with this standard by the end of 2023. This will help the City determine its cost recovery levels and actual permitting program financial results.

Definitions

Surplus and deficit: Program revenue greater than program costs results in a *surplus* while program revenue that is less than program costs results in a *deficit*.

Reserve: The surplus from each year is added to the *reserve*. A deficit can be balanced by drawing funds from the reserve.

2.2.3 The City indicated that funding from sources outside of fees collected through the program would be required to complete outstanding permit work

79. The City allocated funds to a Stabilization Reserve for the permitting program. As of December 31, 2021, the City had earmarked \$84.8 million for the permitting program out of \$162.2 million from the Stabilization Reserve³. Because the amount contributed to the Stabilization Reserve from permit fees was less than the amount earmarked for the permitting program, the City indicated that, based on its current estimates of work in process, funding from other sources would be required to complete outstanding permit work. However, we could not reliably estimate the magnitude of the shortfall because the City did not have accurate information as described in section 2.2.2.

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.

2.2.4 The City did not perform a cost analysis of unprocessed permit applications

80. Permit fees collected for unprocessed applications may not correspond to the cost of processing those applications for several reasons:

- If permit fees are not set at levels sufficient to fully recover costs, the cost of processing permits would be greater than collected revenues; and,
- Fees are collected at the time of permit application, while costs are incurred later when applications are processed. If the costs of processing permits increased between the time fees were received and when the permits were processed, the cost of processing permits would be greater than the revenues collected.

What do we mean by unprocessed applications?

Unprocessed applications include applications in various stages of processing including work-in-process (WIP) and those not yet started.

³ Source: City of Vancouver 2021 Statement of Financial Information

81. In 2022, the City improved its estimation process for unprocessed application revenue (deferred revenue) by identifying additional milestones for work-in-process applications. However, the City did not perform a cost analysis of unprocessed permit applications.
82. When it has transitioned to recognizing revenue on an earned revenue basis, the City plans to record unprocessed applications as deferred revenue, which will put it in a better position to use the reserve as intended and to analyze the program's future sustainability. Management indicated that they are currently in the process of calculating the deferred revenue balance and the balance as of December 31, 2023, will be subject to external financial audit.

Example 2: Unprocessed applications

Assumption: It costs the City \$1.10 to issue a permit but applicants are charged \$1 per permit.

Scenario: It cost the City \$110 to process 100 permits and the City received 105 permit applications for which it collected \$105 in fees.

Result: Since the City had not set its fees to fully recover cost, it collected \$10 less in revenues than it cost to process 100 permits (100 permits x \$0.10). Also, the City collected \$5 for unprocessed applications that would cost \$5.50 (5 permits x \$1.10) to process, plus any annual cost increase.

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.

2.2.5 The City did not have guidance related to the appropriate level of cost recovery for each permit category

83. Analyzing cost recovery at the permit category level would enable the City to understand the extent of cross-subsidization between different permit categories. Cross-subsidization occurs when revenue from one permit category supplements the costs of another permit category within the overall permitting program.
84. Most staff we interviewed from the permitting departments (DBL, PDS and ENG) were aware of possible cross-subsidization within the permitting program. However, they were unsure which permit categories subsidized the costs of other permit categories, at what

level cross-subsidization existed and whether it was reasonable.

85. We found that the City did not have guidance related to the appropriate level of cost recovery for each permit category. Although FRS conducted some analysis of cost recovery at the permit category level (with misaligned revenue and costs as mentioned in section 2.2.1), the City generally applied flat rate increases across most permit fees. In certain years the City adjusted fees for specific permit categories, such as rezoning and development, based on FRS' cost recovery analysis at the permit category level. However, flat rate increases were also applied to some permit categories that were already over-recovering their costs.

Example 3: Cross-subsidization

Assumption: All permits cost \$1 to process. The City charges \$0.50 for Permit A and \$1.50 for permit B.

Scenario: The City issued one permit A and one permit B.

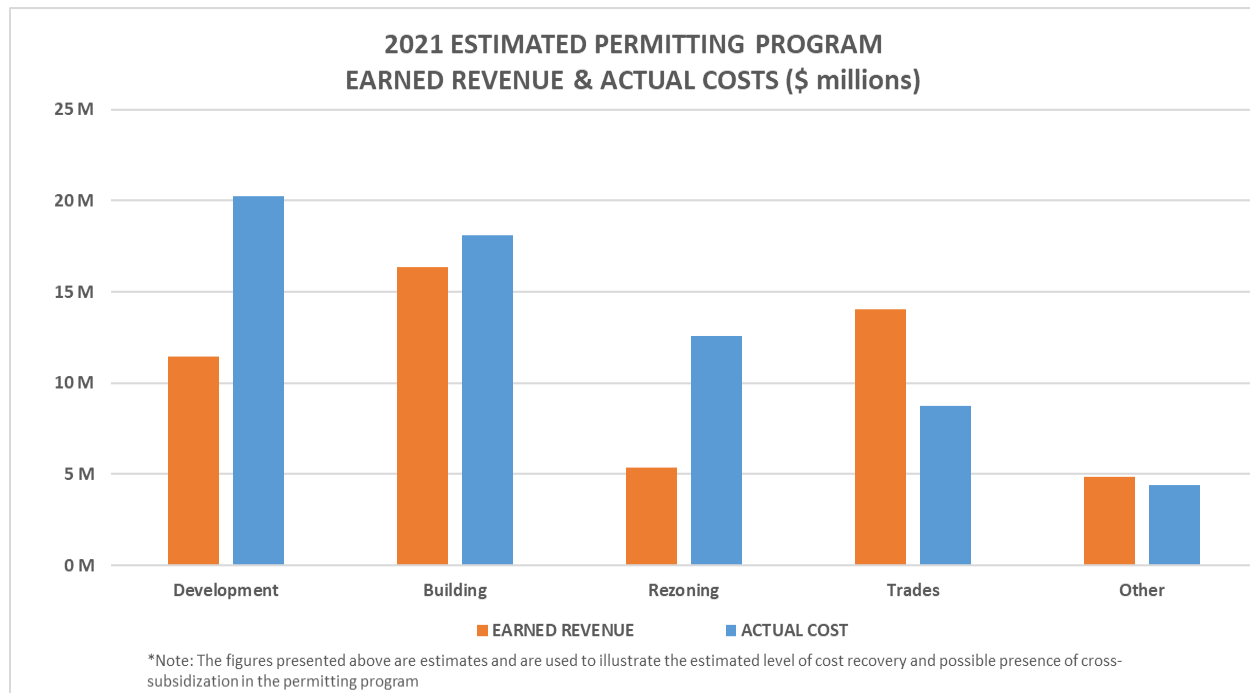
Analysis: At the program level, the City collected \$2 (\$0.50 + \$1.50) and it cost the City \$2 to process these permits. The program is recovering its costs.

At the permit level, the applicant for Permit B paid \$0.50 more than its cost, cross-subsidizing Permit A by \$0.50.

86. The City's objective has been to achieve cost recovery at the permitting program level. Setting cost recovery targets for each permit category and incorporating them into the fee-setting model would help the City better achieve cost recovery and could provide several other benefits:
- The City would be in a stronger position to adjust specific permit fees to align with the City's strategic goals;
 - The City could better respond to fluctuations in forecast volume across each permit category by adjusting fees to mitigate impacts. For example, if the volume for an under-recovering permit category increases while the volume for an over-recovering permit category is unchanged/decreased, this would decrease the permitting program's overall cost recovery level;
 - Permitting departments and Council would be able to make data-informed decisions related to permitting operations; and,
 - The City could improve transparency by providing better awareness of the processing costs and revenues associated with different permits.
87. To understand the potential magnitude of cross-subsidization within the permitting program and the potential value to the City of incorporating data on cross-subsidization into its model, we conducted a cost and revenue comparison for different permit categories, including building, development and rezoning, using financial information provided by the City. We used the City's estimated earned revenue data and compared this with the actual program costs, which aligned cost and revenue components. Since the City is currently

transitioning to using earned revenue data and costs were based on labour survey results, the figures used to perform this analysis were management's estimates and have not been audited. Therefore, the figures presented in Exhibit 5 are provided only to illustrate the City's estimated level of cost recovery and the possible extent of permitting program cross-subsidization.

Exhibit 5: The City's 2021 Estimated Permitting Program Revenue to Cost Comparison (unaudited)



88. Exhibit 5 indicates that the City's cost recovery for development permits and rezoning applications was less than 100 per cent, whereas for trade permits, the City was over-recovering costs. Given that the City had no formal guidance on its desired level of cost recovery for each permit category, as described in section 2.1.2, it is unclear whether the City intended for these cross-subsidizations to occur.
89. The City's estimated level of cost recovery in 2021, using total estimated earned revenue (\$52.1 million) compared to total estimated program cost (\$64.0 million), was 81.4 per cent, suggesting that the permitting program was not entirely user-pay and was subsidized by sources outside of the permitting program.
90. As shown in Exhibit 2, the City has 15 development and building-related fee by-laws, which include 283 individual fees. Calculating cost recovery for all 283 fees would have a high administrative cost and may not be practical. As analysis at the permitting program level does not allow for meaningful insight into the level of cross-subsidization, and permit fee

level analysis could be costly and time consuming, we recommend performing analysis at the by-law level. Performing the analysis at the by-law level would also support the City in ascertaining the degree to which a particular fee raises excess or insufficient revenue.

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.

2.3 Annual Fee Update, Cost and Revenue Components, and Financial Analysis

What we looked for

91. We examined the process the City used to update its annual permit fee schedule and whether its updates were consistent with the permitting program cost recovery model's outputs. We also examined whether the City engaged the public and communicated permit fee changes.
92. We assessed whether the City's cost recovery model appropriately accounted for current and anticipated future permitting program costs and revenues. We also reviewed model changes and improvements during the audit period.
93. We examined whether the City generated relevant and comprehensive data and undertook long-term financial analysis to track the permitting program's progress, to improve permitting department operations and to identify feasible course corrections to meet longer-term goals.

What we found

2.3.1 The City followed a consistent and systematic approach to annually update the fee schedule based on the outputs of the cost recovery model and communicated permit fee changes to the public

94. Notwithstanding the design and data limitations of the City's cost recovery model as noted in section 2.2.1, since 2018 the City updated permit fees annually based on the outputs of the cost recovery model. In 2016, the City engaged external consultants to perform a comprehensive review of development, building, planning and other permit fees. In 2017, the City did not have a cost recovery model in place and applied a two per cent inflationary increase for most permit categories.
95. As part of the fee update process, the City submitted a Fee Increase Report to Council for approval. This report outlined the proposed permit fee updates and contained information such as the volume and forecasts of the permitting program, projected program costs, and strategies to address cost increases. In addition, the report included the City's explanations of historical decisions related to annual fee increases. We found that the City's historical annual fee increase decisions were incorporated into the City's cost recovery model during the audit period and did not note any discrepancies.
96. Following Council approval of the Fee Increase Report, the City updated the fee schedule and input the new fees into its permitting software.
97. As part of the public engagement process, we found that the City engaged the public and communicated changes to permit fees. Prior to Council approval, the City provided the public with an opportunity to provide comments to Council on the proposed fee changes. The City also published the *Schedule of Fees* on the City's website, which showed the fees categorized by permit by-law.
98. We found that the City did not publish details regarding the permitting program's reserve balance in the Fee Increase Report to Council. Additionally, during the audit period, the City did not report to the public annually on the contributions, draws and balance of the permitting program reserve fund. The City should enhance its public transparency in this area as it is an important aspect of promoting accountability and public confidence in the sustainability of the permitting program.

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.

2.3.2 The City included relevant cost components in the cost recovery model; however, improvements are needed

Cost Components

99. The City included the relevant costs of processing permit applications in its cost recovery model and included two main cost components:
- **Direct cost** – cost of resources directly involved in reviewing permit applications and undertaking site inspections, including operating and capital costs; and,
 - **Indirect cost** – cost of organizational support and overhead services to departments administering and enforcing the permitting program.
100. Labour and benefits are the biggest contributors to permitting program costs. To estimate the level of staff involvement and to calculate labour costs, the City administered a labour survey to staff across all permitting departments. The most recent survey was completed in 2021. We observed that the City appropriately made annual updates to labour costs and included annual salary increases, permitting activity level changes and staffing changes.
101. In addition, we found that the City made improvements to the cost components throughout the audit period. For example, it added relevant IT hardware and lease and tenant improvement costs. These changes improved the accuracy of the permitting program's cost estimates.
102. However, the City did not identify costs based on permit attributes within each permit category, such as construction development type, size, or complexity. Analyzing costs at this level of detail would have provided the City with insights to better understand the cost structure of each permit type and to improve cost recovery efforts.

Revenue Components

103. Because the City did not process all permit applications it received during the year it received them, it is important for the City to base projected revenue on both the anticipated volume of incoming applications (application volume) and the volume of applications the City can process each year (processing volume).
104. The City developed its revenue projection method in 2019 based on historical application volumes. Since then, the City updated the forecasting method to take into account past events such as economic downturns and other risk factors. For example, since 2021, the City modified its forecast model to take into account the impacts on application volume resulting from COVID-19.
105. At the program level, the City took into account economic downturns and contingencies as risk factors when projecting revenue based on application volume. However, this revenue projection method did not account for other potential future variables that could impact projected application volumes such as changes to the City's development plans and changes in construction industry trends.
106. Although the City did not forecast revenue based on anticipated processing volume for most of the audit period, the City made an improvement in 2022. For that year, the City projected revenue based on anticipated processing volume in preparation for the planned transition of the financial reporting revenue recognition criteria.

Recommendation 7:

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.

2.3.3 Although the City performed program level financial analysis, it did not conduct a long-term permitting program financial analysis

107. At the permitting program level, the City performed data and financial analysis to inform the status of the program and to improve related operations for permitting departments. During the audit period, FRS provided permitting departments with quarterly financial reviews and access to real-time reports with relevant financial information. Permitting departments used this information to forecast staffing levels and estimate the value of unprocessed applications (deferred revenue).
108. However, the City did not perform long-term financial analysis specifically related to the permitting program's cost recovery model. Long-term financial analysis of the permitting program would assist the City to understand and proactively plan for the financial sustainability of the program.
109. Tracking and reporting on long-term performance can assist management to make informed decisions and enhance accountability when the public can see how well government is reaching its goals and delivering services.

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.

Appendix A: Response from the Finance, Risk & Supply Chain Management Department

Overall Comments

I would like to express my gratitude to the Auditor General's office for their high level of professionalism and patience throughout the audit process. I also want to acknowledge the receptive attitude of the FRS senior management, who participated in an independent assessment of the cost recovery model and procedures for calculating permit fees.

The audit process was executed with inclusiveness, transparency, and was well received by all the impacted staff teams. This process provided us with valuable external insights into the administration of the cost recovery program and helped us identify inconsistencies and opportunities for improvements.

The permitting processes at the City of Vancouver are undergoing significant change to improve customer response times, streamlining processes and addressing complexities of the process. This initiative, the Permit Improvement Project (PIP), will also enable a more complete understanding of the data to inform improved revenue and processing cost analysis.

The City has historically managed cost recovery within the permit program by balancing the fees received in each year with program costs. This approach was in accordance with financial reporting standards, and consistent with other municipalities. This approach was validated by an independent consulting firm, Hemson & Associates. In 2020, the City began to make improvements to the cost recovery approach to consider work in process when assessing program recovery, which has become increasingly important as permit applications become more complex, and as work processes changed rapidly in response to COVID-19. Some of the improvements to the cost recovery model require changes to business processes and systems to improve data, which is included in the Permit Improvement Project work as noted above.

The recommendations contained in the report provide valuable input into the ongoing work to improve the cost recovery model for the permitting program. The team acknowledges the value of this audit process, and we support the eight recommendations outlined in the report regarding changes and modifications to the program's administration.

Once again, I want to express our appreciation for the efforts of the Auditor General's Office and assure them of our continued focus on improving the cost recovery model including the recommended changes and continuous improvements to the program.

Patrice Impey
General Manager Finance, Risk and Supply Chain Management
City of Vancouver

City of Vancouver Auditee's Action Plan

Exhibit 6: Auditee Action Plan

Recommendation	Management Response and Next Steps	Responsibility	Target Date
<p>Recommendation 1</p> <p>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.</p>	<p>The Finance, Risk & Supply Chain department agrees with the recommendation.</p> <p>Action: As part of the annual fee setting process, staff will document and review fees for subdivision permits and rezoning applications against the cost of processing those applications to ensure the fees do not exceed the average cost.</p>	<p>Director, City Wide Financial Planning & Analysis</p>	<p>Q4 2023</p>
<p>Recommendation 2</p> <p>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:</p> <ul style="list-style-type: none"> • The permitting program's alignment with the authorities set out in the Vancouver Charter and relevant by-law requirements; 	<p>The Finance, Risk & Supply Chain department agrees with the recommendation.</p> <p>Action: Establish and document guidance for the program that will detail:</p> <ul style="list-style-type: none"> • Alignment with Vancouver Charter and by-law requirements • Cost recovery objective timeframe • Cost recovery approach • Departmental roles and responsibilities 	<p>Director, City Wide Financial Planning & Analysis</p> <p>Deputy General Manager (PDS)</p> <p>Director, Permitting Services (DBL)</p>	<p>Q4 2024</p>

Recommendation	Management Response and Next Steps	Responsibility	Target Date
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • Target reserve balance range • Cost recovery targets • Staff will confirm existing policy direction from council as part of the development of this guidance, and review on a regular basis. 		
<p>Recommendation 3</p> <p>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</p>	<p>The Finance, Risk & Supply Chain department agrees with the recommendation.</p> <p>Action: As part of the requirement to move to earned revenue per Public Sector Accounting Board (PSAB) standards, staff have already begun the transition to calculate permit fee</p>	<p>Director, City Wide Financial Planning & Analysis</p>	<p>Q4 2024</p>

Recommendation	Management Response and Next Steps	Responsibility	Target Date
full cost recovery objective, in alignment with policy direction from Council.	cost recovery levels using earned revenues. As part of the annual fee setting process staff will calculate the permit fee cost recovery level using earned revenues, and adjust permit fees accordingly to ensure it meets its full cost recovery objective, in alignment with policy direction from Council.		
<p>Recommendation 4</p> <p>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.</p>	<p>The Finance, Risk & Supply Chain department agrees with the recommendation.</p> <p>Action: The data necessary to execute on this recommendation is not currently available. Will engage with the Permit Improvement Project (PIP) team to develop the information required to calculate the cost of unprocessed permits and the deferred revenues through current and future project phases. Timing will be dependent on PIP project scope and timing. Staff to report back on progress.</p>	<p>Director, City Wide Financial Planning & Analysis</p> <p>Manager, Strategic Operations (PDS)</p> <p>Director, Digital Business Services (DBL)</p>	Q4 2024
<p>Recommendation 5</p> <p>The City should develop guidance on the appropriate target level of cost recovery for</p>	The Finance, Risk & Supply Chain department agrees with the recommendation.	Director, City Wide Financial	Q4 2024

Recommendation	Management Response and Next Steps	Responsibility	Target Date
<p>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.</p>	<p>Action: Staff will develop guidance on the target level of cost recovery for each permit category. Staff will assess the level of cost recovery for each permit category against the target(s) and take into consideration in developing fee recommendations to Council as part of the fee setting process.</p>	<p>Planning & Analysis</p>	
<p>Recommendation 6</p> <p>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.</p>	<p>The Finance, Risk & Supply Chain department agrees with the recommendation.</p> <p>Action: As part of the annual fee setting process, staff will publish additional information about the permitting program including the reserve opening balance, net surplus/deficit, closing balance for the year. Levels and sources of subsidization, if any, will be estimated based on available data.</p>	<p>Director, City Wide Financial Planning & Analysis</p>	<p>Q4 2023</p>
<p>Recommendation 7</p> <p>The City should enhance the cost and revenue components of its cost recovery model to enable more effective analysis by adding:</p>	<p>The Finance, Risk & Supply Chain department agrees with the recommendation.</p> <p>Action: Actual cost data is not currently available. Staff will improve the current estimation by further segregating the cost</p>	<p>Director, City Wide Financial Planning & Analysis</p> <p>Manager Strategic</p>	<p>Q4 2024</p>

Recommendation	Management Response and Next Steps	Responsibility	Target Date
<ul style="list-style-type: none"> • 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. 	<p>structure of its cost recovery model by development type, size or complexity.</p> <p>Action: Will engage with the Permit Improvement Project (PIP) team to develop the information required to further segregate the cost structure of its cost recovery model by development type, size or complexity through current and future project phases. Timing will be dependent on PIP project scope and timing. Staff to report back on progress.</p> <p>Action: Staff will refine its revenue projections by layering in economic factors, development plans, and industry trends.</p>	<p>Operations (PDS)</p> <p>Director, Permitting Services (DBL)</p>	
<p>Recommendation 8</p> <p>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.</p>	<p>The Finance, Risk & Supply Chain department agrees with the recommendation.</p> <p>Action: Staff will extend its financial projections beyond one year.</p>	<p>Director, City Wide Financial Planning & Analysis</p> <p>Director, Digital Business Services (DBL)</p>	<p>Q4 2024</p>

Appendix B: About the Audit

This report presents the results of a performance audit conducted by the Office of the Auditor General for the City of Vancouver (OAG) under the authority of the *Auditor General By-Law No 12816*. All work on this audit was performed to a reasonable level of assurance in accordance with the Canadian Standard on Assurance Engagements (CSAE) 3001 – Direct Engagements, set out in the CPA Canada Handbook – Assurance.

The Office of the Auditor General applies Canadian Standards on Quality Management, CSQMs 1 and 2, which require it to maintain a comprehensive system of quality management, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

The OAG complies with the independence, other ethical requirements and rules of professional conduct of Chartered Professional Accountants of British Columbia (CPABC) applicable to the practice of public accounting and related to assurance engagements and the standards of conduct of the City of Vancouver.

Objective

The objective of the audit is to determine if the City of Vancouver's permitting program cost recovery model was designed and applied to ensure that the full costs of services were recovered and projected reserve fund balances were sufficient to stabilize future operations.

Period Covered by the Audit

The audit covered the period of January 2016 to June 2022. The audit included materials produced prior to January 2016 used as policies, guidance or administrative processes during the audit period. We completed our examination work from August 2022 to February 2023, and completed the audit on April 12, 2023.

Audit Scope and Approach

The scope of this audit included the cost recovery model for the City's permitting program, which included planning, development and building permits. The Finance, Risk and Supply Chain Management (FRS) department holds primary responsibility for the model. Given their role in reviewing and issuing permits, the Development, Buildings and Licensing (DBL) department and Planning, Urban Design and Sustainability (PDS) department contribute to the model.

The scope of this audit does not include:

- Any other permits, for which the City may collect fees, that are outside the permitting program's cost recovery model;
- A review of whether the correct fees were charged and collected from applicants⁴;
- Permit processing times and enforcement; and,
- The effectiveness of the City's current earned revenue transition and the accuracy of the deferred revenue balance.

We used several methods to obtain sufficient and appropriate audit evidence. In addition to interviewing key internal stakeholder (managers and staff) and external stakeholders, we examined relevant documentation and undertook analytical procedures using data provided by FRS and DBL. We:

- Reviewed the cost recovery model for alignment with relevant legislation and policy, comprehensiveness, cost-effectiveness and good practice;
- Analyzed the cost breakdown and revenue forecast components of the cost recovery model to determine the level of cost recovery the City achieved in its permitting fee program;
- Reviewed the process and available documentation related to the City's current reserve fund for permitting services and its plan for maintaining a healthy reserve balance; and,
- Reviewed supporting documentation to examine the annual fee update process and management's review of the cost recovery model.

Audit Criteria

A performance audit uses specific criteria that are determined in advance to measure how the department or program is performing in the area being examined. Criteria are intended to be reasonable expectations of the results that a program, operation, system, practice, or control is intended to achieve.

⁴ In 2022, we undertook an audit to examine the accuracy of building permit fees and associated administrative processes and practices.

We used the following criteria in this audit:

Exhibit 7: Audit Criteria

Line of Enquiry	Criteria
Cost neutrality results of the fee model	<p>The City's permit fee model reasonably complied with legislative and policy requirements.</p> <p>The City's permit fee model was a comprehensive full cost recovery model that accounted for current and anticipated future costs and revenues of the permitting program.</p> <p>The City regularly reviewed and updated its permit fee model.</p> <p>The City updated the permit fee schedule based on the outcome of the permit fee and cost model and engaged the public and communicated changes to permit fees.</p> <p>The City effectively achieved cost recovery with the permitting fee program and maintained adequate reserve funds.</p> <p>The City performed data and financial analysis to inform improvements to related operations in DBL and PDS.</p>

FRS acknowledged their responsibility for the subject matter of this report and agreed with the suitability of the criteria we applied.

Follow Up

The recommendations within this report will be included as part of the OAG's semi-annual follow-up process agreed to by Council.