

Development Charges

June 12, 2023, Audit Committee



Background

Development charges are an important source of revenue for the City.

- They are applied to all new developments and redevelopments in the City.
- The Development Charges Act grants the City the authority to impose development charges.
- Development Charges collected for the City: \$66M (2020), \$86M (2021) and \$74M (2022).

Administering development charges

- A development charge background study is conducted every 5 years
 - It Identifies infrastructure needs resulting from growth and the associated costs.
- The City adopts a Development Charges (DC) By-law every 10 years
 - The City last completed the background study and enacted the development by-laws In 2019.

The City collects development charges on behalf of the Region of Peel, Peel District School Board, and Dufferin-Peel Catholic District School Board.

Audit Objectives and Scope

We assessed whether:

1. Development charges are calculated in accordance with relevant by-laws
2. An insurance certificate and letter of credit or security deposits are in place for each development
3. Building permits are issued only after all required documents are in place and all charges have been collected
4. Process is in place to ensure that development charges payments have been made for applicable property developments
5. Cash in lieu of parkland charges are supported and approved
6. Reserve funds are allocated to capital reserve fund according to the development charges by-laws
7. Development charges collected on behalf of Peel Region and the school boards are accurate and transferred timely

Audit Period: development charges activity from January 1, 2020, to December 31, 2022

Finding #1: Manual & Inefficient billing for invoices with frozen rates

Condition

- For invoices with development charge rates from prior periods (i.e., frozen rates) the applicable retro rates and interest must be entered manually for each development charge fund.
- Staff must enter approximately 20 data fields for each type of development (detached, townhouse, condo etc.) for any invoice with frozen rates.

Impact

- Manually entering multiple fields for each invoice line is inefficient and increases the risk of incorrect development charge amounts being billed.

Finding #2: System control to automatically apply current rates is not functioning when rates decrease

Condition

- Bill 23 rendered certain services no longer eligible for funding from development charges.
- This resulted in an overall rate decrease of development charges applied by the Region of Peel.
- The system does not automatically apply new lower development charge rates to existing invoices, and the user is not notified of the rate change.

Impact

- This resulted in four developers being overcharged by a total of \$288K.
- City staff were notified of the overbilling by Peel Region, and credits were issued in 2023.

Finding #3: DC rates updating in the IT System have not always been vetted and approved

Condition

- On February 1 and August 1 of each year, development charge rates for the City of Brampton are adjusted based on Statistics Canada's building construction price index.
- Rate updates in AMANDA are not always approved by a Manager
- A report that shows rates in Excel format is not available in AMANDA (the City's development charge IT system). This does not allow for an efficient review of newly entered rates.

Impact

- Lack of vetting and approval for rate updates can result in incorrect rates undetected.
- Small errors in development charge rates can lead to significant differences in the calculated development charges.

Finding #4: Current certificates of insurance are not always on file

Condition

- Developers are required to provide an updated certificate of insurance every year, at least 30 days prior to the expiry of the current policy.
- 11 out of 25 development charges samples did not have an updated certificate of insurance on file.
- Follow-up emails requesting proof of insurance renewals are sometimes sent months after the policy has expired.

Impact

- Having outdated Certificate of Insurance increases the liability risk to the City.

Finding #5: Standard Operating Procedures are not current

Condition

- The administration of development charges includes a number of processes, such as invoicing, rate updating, cash collection and application, account reconciliations, and obtaining insurance and security.
- There are no standard operating procedures (SOPs) within Development Finance. There is an outdated work instruction document that no longer reflects current processes or systems.

Impact

- Not having up-to-date standard operation procedures can result in inconsistent or inappropriate execution of processes. SOPs are an important tool in training and orientation for current and future employees.

Conclusion

Overall, development charge processes operate effectively, and proper oversight is in place.

We noted the following that could reduce billing accuracy:

- Inefficiency in processing invoices with frozen rates due to system limitations
- Lack of automatic adjustments to development charges when rates decrease
- Lack of comprehensive controls in the process of updating development charge rates in the system

Staff should:

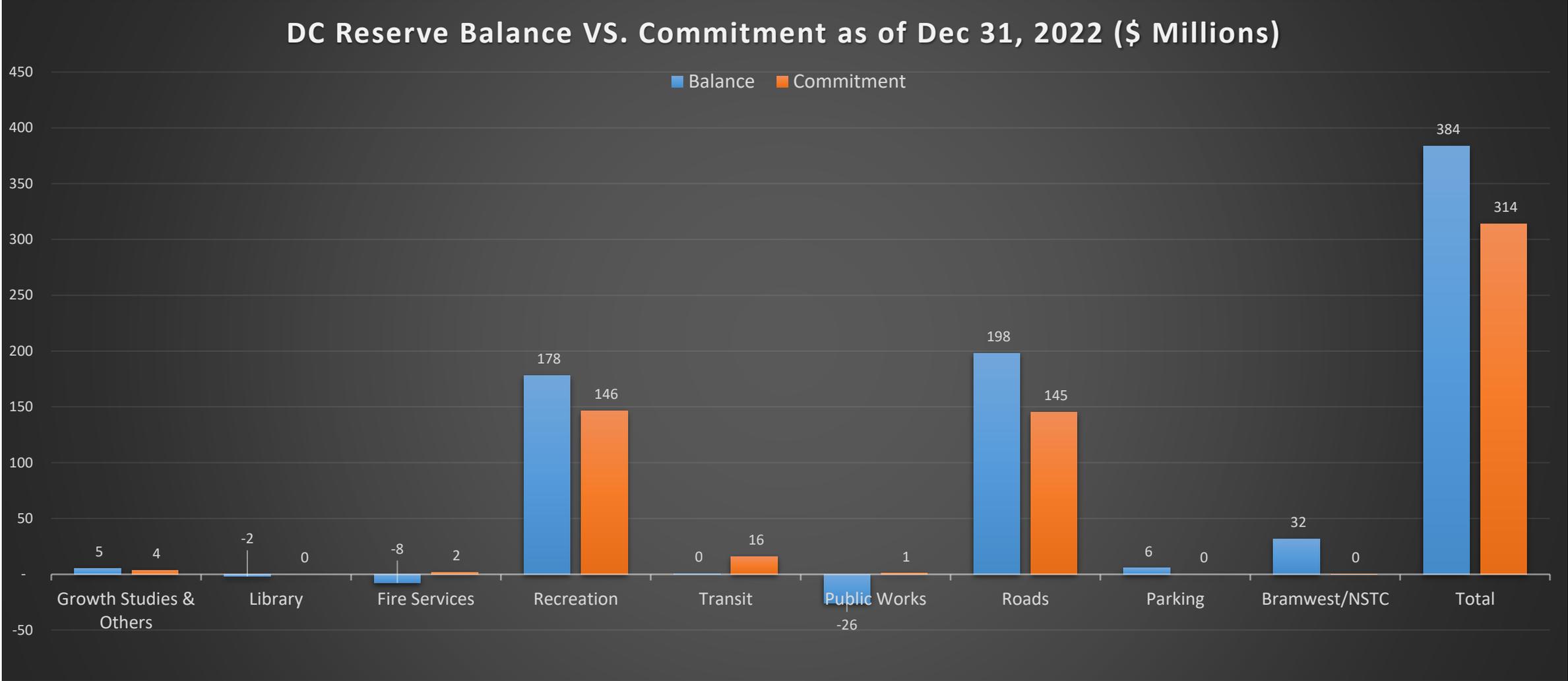
- Implement IT enhancements and strengthen the rate update process to improve billing controls and efficiency.
- Improve the monitoring of insurance coverage to ensure that the City always has updated Certificates of Insurance on file for developments.

Comparison of this audit with the Provincial Development Charges Audit

The Province of Ontario introduced sweeping changes through two pieces of legislation - Bill 23, the More Homes Built Faster Act, 2022 and Bill 108, More Homes, More Choice Act, 2019. A provincial audit has been announced.

	Development Charges Audit	Provincial Audit
Audit Type	Internal Audit	Third-party Audit
Objective	Evaluate the effectiveness of processes and controls around Development Charges	<ol style="list-style-type: none">1. Understand any potential or perceived impacts of Bill 23;2. Evaluate the accountability, effectiveness and efficiency of the activities that support investments in growth-related infrastructure
Scope	Jan 1, 2020, to Dec 31, 2022	<ol style="list-style-type: none">1. Financial Impact: 2022 to 20312. Infrastructure: investment since 2018

The City's Development Charge Reserve and Spending Commitment



Thank you!

