
REPORT 2

(1215/11/IM, 1215/10/01/IM)

DISCUSSION PAPER – PAYMENT OF MILEAGE ALLOWANCES FOR ELECTED MEMBERS

1. Purpose of Report

To seek Council's approval to a submission on the Remuneration Authority's discussion paper regarding the payment of mileage allowances for elected members.

2. Recommendations

Officers recommend that Council:

- 1. Receive the information.*
- 2. Note that the Tawa and Makara Ohariu Community Boards have considered and are in support of the Wellington City Council's proposed submission on the Payment of Mileage Allowances for Elected Members.*
- 3. Agree that the submission (attached as appendix 2 to the report) on the Payment of Mileage Allowances for Elected Members be forwarded to the Remuneration Authority for their consideration.*
- 4. Authorise the Chief Executive and the Mayor to make any minor editorial changes to the submission and to reflect any additional matters agreed by the Council.*

3. Background

The ability for local authorities to pay elected members a mileage allowance when using their private vehicles on Council related business has been in place for some years. The maximum allowance payable is currently \$0.70 per kilometre and authority for its payment is provided for in Clause 14 of the Local Government Elected Members (2008/09) Determination 2008. It is important to note that the payment of the mileage allowance is permissive rather than mandatory (i.e. councils are not required to pay their members a mileage allowance if they resolve not to do so).

The Council has lobbied the Remuneration Authority over a number of years for a change to the mileage allowance rules to allow elected members to be reimbursed their costs when using transport, other than a private vehicle, on council related business.

In issuing its 2008 determination the Remuneration Authority acknowledged it had concerns about the application of the current policy and, in particular, the problems that existed as a result of the inclusion of a provision for the payment of travelling time in the motor vehicle allowance. The inclusion of travelling time not only advantaged those who used motor vehicles rather than public transport but also provided an incentive for elected members to use private motor vehicles on council business at a time when many councils were encouraging greener, or generally more sustainable, transport and environmental policies.

As a result the Remuneration Authority signalled in its determination its intention to review the basis and application of the mileage allowance payable to elected members prior to the release of its 2009/2010 Local Government Elected Members' Determination.

The Remuneration Authority has released a discussion paper on the payment of mileage allowances to elected members, highlighting some of the concerns it has about the application of the current policy. The paper includes a proposal to abolish the mileage allowance as it currently applies and for it to be replaced with a system which will provide for a reimbursement for travelling time and actual travel costs, but only in limited circumstances.

Given the significance of the proposed changes the Remuneration Authority has indicated that any change would not be introduced until after the 2010 local body elections.

The Remuneration Authority is seeking submissions on its proposal, the deadline for the receipt of which is Wednesday 1 July 2009. A copy of the Authority's discussion paper is attached as Appendix 1.

4. Discussion

4.1 *Current position*

The Council's policy, prior to December 2008, was to pay its elected members the maximum allowance of \$0.70 per kilometre when using their private vehicles on council related business.

However, as a result of discussions that took place at the Long Term Community Council Plan (LTCCP) workshop in November 2008, a number of possible cost saving proposals were informally put to councillors at the end of the December 2008 Council meeting. One of the proposals put forward for consideration related to the payment of mileage allowances to elected members. Because elected members were "self employed" and had the ability to claim the costs of using their vehicles as a business expense against their annual tax return, it was agreed that the payment of mileage allowances to elected members should be discontinued with immediate effect.

Because this decision involved a change to the Council's rules in relation to the payment of allowances and the reimbursement of expenses to elected members,

a formal confirmation of the informal decision and the subsequent approval of the Remuneration Authority were needed.

The decision was ratified by the Council at its meeting on 26 March 2009 and the matter has been referred to the Remuneration Authority for its approval.

4.2 Problems with the current framework

The Remuneration Authority has identified a number of anomalies or problems with the application of the current vehicle allowance, particularly in regard to:

- The decision taken some years ago to include a “travel time component” when setting the level of allowance payable. The initial travel time/running cost split was about 50/50 (i.e. \$0.35/\$0.35) and although the price of fuel has risen since then a significant portion of the allowance still represents payment for travel time. The issue that has been raised by the Remuneration Authority is that those members who are paid the allowance receive additional “remuneration” for travel time as well as a reimbursement of some of their costs. The inclusion of the travel component in the mileage allowance places the owners of motor vehicles who use those vehicles to travel to and from Council meetings at an advantage over those who do not (i.e. those that use public transport or other means of travel). The Remuneration Authority has included in its discussion paper examples to illustrate why it believes the current system is unfair.
- The validity of paying elected members, who are self-employed for tax purposes, a mileage allowance at all. In the Remuneration Authority’s view the payment of a mileage allowance to a self-employed person, who can separately claim the costs of using his or her vehicle as a business expense, can be seen as anomalous or even perhaps as “double dipping”.

4.3 Comments on the Authority’s proposals

It is accepted that the problems and inconsistencies identified by the Remuneration Authority in its discussion paper do exist and any efforts on its part to simplify the current framework should be supported.

However, as identified by the Remuneration Authority, it is difficult, given the diversity of the local government sector, to establish a regime for travel and related allowances which is consistent and fair for all local authorities. The introduction of a new “single” system that caters for all situations and circumstances is going to be difficult if not impossible to achieve.

Comments on the specific aspects of the Remuneration Authority’s proposal

Comment 1 Remove the mileage allowance as it currently stands, leaving elected representatives to claim the costs of vehicle use as part of their taxation arrangements.

This option is in line with the decision that the Council has already made in respect of its own elected members. However, the distance the elected members of Wellington City are required to travel to attend meetings is relatively insignificant when compared to many other local authorities. The travel costs involved and the levels of reimbursement would be substantially different between, say, Wellington City (a compact urban authority where travel distances are relatively small) and Southland District Council (a large rural authority where travel distances are considerable, i.e. upwards of 150 kilometres and more than two hours driving time).

It is recommended that the Council supports the Remuneration Authority's proposal to remove the mileage allowance as it currently stands.

Comment 2 In councils' expense policies, provide for explicit recognition of travelling time from home to council meetings (or to other explicitly recognised council business activities) where this exceeds, say, around 30km or 30 minutes. The "travel allowance" could be set at a rate per kilometre or, preferably, an hourly rate.

The Remuneration Authority's preference is that the hourly rate for travel time should be a flat rate which applies uniformly across the country rather than struck on the actual annual remuneration of each elected representative.

As previously stated, the distances members of the Wellington City Council are required to travel to meetings and the time it takes to do so are relatively insignificant when compared with many other local authorities.

It would not be unreasonable for explicit recognition to be made for those authorities where significant time is spent by elected members getting to and from council meetings or other council related activities and the payment of a separate travel allowance in such cases could be supported.

The payment of a flat hourly rate for travel time, as proposed by the Remuneration Authority, would seem an appropriate way of resolving the issue. Each local authority would be responsible for determining the appropriate travel time threshold based on guidelines set by the Remuneration Authority, subject to final sign-off by the Authority as part of the council's expense policy's approval process.

The provision of such an allowance would also address the Remuneration Authority's concerns about fairness as it would treat all elected members from the one local authority the same, regardless of their mode of transport and whether or not transport was shared.

Although the Council's own elected members may not reach the threshold (in either distance travelled or travel time) to qualify them for the receipt of any travel allowance, it is recommended that the Council supports the recognition of travelling time provided the "thresholds" that are to apply are based on

guidelines set by the Remuneration Authority and that the travel allowance payable is set at an hourly rate that is consistent across the country.

Comment 3 In councils' expense policies make explicit reference to the conditions under which the actual costs of travel on public transport by an elected representative may be met by the Council.

The Council's current rules provide for the costs of elected members travelling by public transport to and from Council meetings and functions to be reimbursed on the production of receipts. This includes the provision of taxi chits for official Council purposes. There is no proposal to change that policy. As a "self employed" person an elected member cannot claim the reimbursement of actual costs, such as a bus fare, as a business expense cost when lodging their tax return.

It is recommended that this proposal be supported. Elected members should not be disadvantaged by their choice of travel. However certain conditions would have to apply, namely a distance/time threshold and a reasonableness clause. For example a council may choose to reimburse travel by train, bus and, in some circumstances, taxi. Criteria should be clearly defined in councils' expenses policies.

Comment 4 Given the significance of this change, our proposal is that comments be sought with the intention of introducing any change following the 2011 Local Body elections.

The changes proposed are quite significant and are likely to have a greater effect on some of the smaller rural authorities compared to the larger, more compact, urban authorities. It is therefore recommended that the Council supports the Authority's intention of not applying any changes until after the 2010 local authority elections (incorrectly referred to as 2011 elections in the Remuneration Authority's paper).

4.4 Comments on the Authority's proposals

The Council's proposed submission has been considered by the Tawa and Makara/Ohariu Community Board meetings held on 11 June and 18 June 2009 respectively. Both Boards are happy with the principles outlined in the submission and have indicated their support for the submission in its current form.

5. Conclusion

The Remuneration Authority has released a discussion paper on the payment of mileage allowances for elected members. The paper proposes the abolition of the current mileage allowance provision and replacing it with a system which provides for the reimbursement for travelling time and actual travel costs, in limited circumstances.

Any submissions or comments the Council might want to make on the proposal must be lodged with the Remuneration Authority by Wednesday 1 July 2009.

Contact Officer: *Ross Bly, Special Projects and Electoral Officer*

Supporting Information

1) Strategic Fit / Strategic Outcome

This project supports long-term outcome 7.2.2 – “Wellington will operate an open and honest decision-making process that generates confidence and trust in the democratic system”.

2) LTCCP/Annual Plan reference and long term financial impact

Relates to C534: Elections, Governance and Democratic Process.

3) Treaty of Waitangi considerations

There are no Treaty of Waitangi implications.

4) Decision-Making

This is not a significant decision.

5) Consultation

a) General Consultation

Not required.

b) Consultation with Maori

Not required.

6) Legal Implications

No legal implications.

7) Consistency with existing policy

This report is consistent with existing Wellington City Council policy.

APPENDIX 1

APPENDIX 2

Submission to the Remuneration Authority
on
Motor Vehicle Mileage Allowance for Elected Members
from
Wellington City Council

30 June 2009

1. Introduction

Wellington City Council (the Council) welcomes the opportunity to make a submission to the Remuneration Authority's discussion paper on the payment of mileage allowances to elected members for the use of their private vehicles on Council business.

The Council agrees that the current mileage allowance policy has some inconsistencies and therefore supports the Remuneration Authority's attempts to resolve some of the inconsistencies and the unfairness of its application as outlined in the discussion paper.

However, as identified by the Remuneration Authority, it is difficult, given the diversity of the local government sector, to establish a regime for travel and related allowances which is consistent and fair for all local authorities. For that reason the introduction of a new "single" system that caters for all situations and circumstances is going to be difficult to achieve.

The Council's submission has been considered by both the Tawa and Makara/Ohariu Community Boards and both Boards have indicated their support of the principles outlined in the submission.

The Council would be happy to meet with the Authority to answer any questions it might have in relation to the Council's submission.

Response to the Authority's Proposals

The Council's comments on the specific aspects of the Authority's proposal are as follows:

- (a) Remove the mileage allowance as it currently stands, leaving elected representatives to claim the costs of vehicle use as part of their taxation arrangements.*

As identified by the Remuneration Authority, it is acknowledged that the payment of a mileage allowance under the current rules can be seen as anomalous or even perhaps as "double dipping". Therefore any effort on the part of the Remuneration Authority to simplify the current framework is strongly supported by the Council. The opportunity for elected members to "double dip" possibly does exist but whether it is a problem and, if so, to what extent, is difficult to determine. However, whatever the situation it is important to avoid any public perception of special treatment in relation to "self-employed" elected members.

It is noted that the payment of a mileage allowance is permissive rather than mandatory. As a result the Council recently resolved to discontinue the payment of a mileage allowance to its elected members on the basis that they are "self-employed" and, as such, have the ability to claim the running costs of their vehicles as a business expense as part of their tax return if they so choose.

The Council therefore supports the proposal to remove the mileage allowance as it currently stands, requiring elected representatives to claim the costs of vehicle use as part of their taxation arrangements.

- (b) *In councils' expense policies, provide for explicit recognition of travelling time from home to council meetings (or to other explicitly recognised council business activities) where this exceeds, say, around 30km or 30 minutes. The "travel allowance" could be set at a rate per kilometre or, preferably, an hourly rate.*

The Remuneration Authority's preference is that the hourly rate for travel time should be a flat rate which applies uniformly across the country rather than struck on the actual annual remuneration of each elected representative.

The Council acknowledges that the distance its members are required to travel to meetings and the time it takes to do so are relatively insignificant compared to a number of other local authorities.

It accepts that it would not be unreasonable for the rules to provide for explicit recognition for those authorities where significant time is spent by elected members getting to and from council meetings or other council related activities. The Council therefore supports the introduction of a travel allowance in recognition of travelling time from home to Council meetings where this exceeds an appropriate distance or time.

The payment of a flat hourly rate for travel time, as proposed by the Remuneration Authority, would seem an appropriate way of resolving the issue. It is recommended that each local authority would be responsible for determining its own qualifying travel time threshold based on guidelines set by the Remuneration Authority and subject also to final approval by the Authority as part of its sign-off of the Council's expense policy.

The provision of such an allowance would also address the Remuneration Authority's concerns about fairness. It would treat all elected members from the one authority on the same basis, regardless of their mode of transport and whether or not transport was shared.

Although the Council's elected members may not reach the threshold (in either distance travelled or travel time) to qualify them for the receipt of any travel allowance, the Council supports the recognition and payment of travelling time provided the thresholds that are to apply are based on guidelines set by the Remuneration Authority and that the travel allowance payable is set by the Remuneration Authority at an hourly rate that is consistent across the country.

- (c) *In councils' expense policies make explicit reference to the conditions under which the actual costs of travel on public transport by an elected representative may be met by the Council.*

The Council agrees with this recommendation. It is agreed that elected members should not be disadvantaged by their choice of travel. However certain

conditions would have to apply, namely a distance/time threshold and a reasonableness clause. For example a council may choose to reimburse travel by train, bus and, in some circumstances, taxi. Criteria should be clearly defined in councils' expenses policies.

(d) Given the significance of this change, our proposal is that comments be sought with the intention of introducing any change following the 2011 Local Body elections.

The Council acknowledges that the changes proposed are significant and therefore supports the Remuneration Authority's intention of not introducing any change until after the 2010 local authority elections.