

Wellington Regional Council

25 FEB 2011

23 February 2011

To All Councils (including Auckland Council)

Vehicle Mileage and Travel Time Allowances

There have been numerous letters sent to Councils regarding these allowances and the Authority has received many responses and submissions from different Councils.

We have studied carefully the many submissions we have received and have taken the opportunity to discuss the main issues with Local Government NZ.

Most of the submissions about the Vehicle Mileage Allowance have been about the threshold of 30 kilometres (round trip), the imposition of a cap of 5,000 kilometres, and arguing for a higher cap or a different rate of reimbursement for distances over that cap. Many submissions pointed out that applying the rules to each event would not work where an elected member made many trips in one day.

There have been very few submissions on the Travel Time Allowances, apart from the need for a threshold, but it was clear that the per event rule would not work for the same reasons as for the Vehicle Mileage Allowance.

We also realised that it would be helpful to set out our thinking and rationale so that elected representatives would have a clearer understanding of the reasons for our rulings.

This letter accordingly sets out the rationale and thinking behind our setting of the rules surrounding these allowances and the final Authority view.

In coming to this final view we have:

- taken into account the numerous points of view and arguments raised by various Councils
- taken into account the employment and tax status of elected representatives
- had regard to normal practices in both the private and public sectors
- had regard to Inland Revenue's tax guidance on vehicle expenses deductions

Remuneration Authority

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- used the research carried out by the Automobile Association into vehicle running costs
- consulted with Local Government NZ
- taken into account our statutory requirements to be fair to those we are setting remuneration and allowances for, as well as being fair to ratepayers.

Overarching principles and observations

1. It is not normal practice for a person to be paid for the cost of travelling to and from work where the place of work is unchanged. This applies in general to employees and to people permanently employed on a contractual basis. It certainly applies to members of statutory or other crown bodies, such as those covered by the Cabinet Fees Framework. Thus, an elected representative who lives within normal commuting distance of Council offices would not be expected to have the cost of travel to and from the Council offices paid for. The Authority considers it fair to regard normal commuting distance as being up to 15 kilometres each way.
2. Underlying the Authority's methodology for determining local authority pools, and the Auckland remuneration levels, is the recognition that elected representatives' remuneration should reflect the size of the job and the proportion of full-time employment necessary to carry out the job. In making this recognition, the Authority draws on its knowledge of remuneration in the public sector for similar sized jobs. In all cases this remuneration is expected to meet the cost of getting to and from work, within reasonable distances.
3. It is recognised that some elected representatives live much further away from Council offices, often because of the geographic nature of their electorate. The Authority considers it fair to recognise the **extra cost** those representatives incur in attending to those electorate responsibilities. In this case the extra cost is the cost over and above normal commuting costs.
4. It is fair to recompense elected representatives for the use of their own car to carry out Council business, over and above normal commuting costs.
5. It is not normal practice for a person to be paid for the time taken to travel to and from work when within normal commuting distance. It is recognised that some elected representatives live much further away from Council offices and so it is fair to recognise the **extra time** they may need to attend to normal council business, over and above normal commuting time. The Authority considers it fair to regard normal commuting time to be up to 1 hour each way.
6. It is fair to recompense elected representatives for additional time needed to travel on council, business, over and above normal commuting time.
7. It is fair to recognise that an elected member may use their own car, or need additional time to carry out their Council business in any one day outside of normal commuting distance or time.

8. Vehicle mileage and travel time allowances are there to recognise additional costs (both in terms of expenditure and in terms of extra time involved in carrying out their duties) **not** to compensate for a perceived inadequate remuneration. Perceived inadequate remuneration should be addressed as a separate issue.
9. The latest research (2010) carried out by the Automobile Association shows that:
 - a. The average distance travelled in a private car is 14,000 kilometres per year
 - b. For a medium size car (2000cc to 3500cc and cost up to \$60,000) the overall cost of running the car is 73.5 cents per kilometre for those 14,000 kilometres.
 - c. If one takes the year distance travelled as 15,000 kilometres then the running cost is 70.2 cents per kilometre for those 15,000 kilometres.
 - d. Running costs for distances over 15,000 kilometres is 24.3 cents per kilometre, as all the fixed overheads have been met by the first 15,000 kilometres.
 - e. Running costs for distances over 15,000 kilometres even for a large car (over 3500cc and cost up to \$75,000) is 28.6 cents per kilometre.
10. If a person uses their car for council business then it is reasonable to assume, on average, that the distance they travel on council business would be in excess of the normal average 14,000 per year private use. Therefore an allowance which pays 70 cents per kilometre is actually reimbursing in excess of the actual extra cost incurred. If a person travels an extra 5,000 kilometres on council business then their actual average running cost per kilometre is 60.6 cents per kilometre for those 19,000 kilometres.
11. A vehicle mileage allowance which pays at the rate of 70 cents for kilometre for the first 5,000 kilometres and then at the rate of 35 cents per kilometre is actually reimbursing more than the actual cost of running the car.
12. The payment of a vehicle mileage allowance by a council should not be confused with the ability of elected representatives to claim mileage costs as a tax deduction. One does not depend on the other – nor do the rules surrounding each have to be consistent. An elected representative can, to the best of our knowledge, claim reasonable travel costs as a tax deduction, regardless as to whether or not they receive some recompense for those costs. Similarly the extent of recompense does not, and should not, depend on the tax treatment of that expense.

Since we released our determinations and explanatory notes which, inter alia, had a cap of 5,000 kilometres and expressed the vehicle mileage allowance limitations in terms of “per event”, we have listened to and have noted some valid arguments against the 5,000 kilometre cap and the use of a “per event” definition. We accept that a 5,000 kilometre cap would significantly disadvantage some elected representatives who have to cover large distances to carry out their duties. We

therefore have removed the limit and allowed distance over 5,000 kilometres in any one year to be reimbursed at the rate of 35 cents per kilometre.

We also recognise the difficulties that a “per event” definition could have, particularly for an elected representative who makes many journeys in their own vehicle in one day where each of their trips may be less than 30 kilometres, but in total add up to over 30 kilometres.

We agree with some submissions that there is no good reason to have a cap on the number of hours for which travel time may be reimbursed, and so have removed the reference to a maximum number of hours.

Accordingly, the Authority sets the following guidelines under which it will approve Vehicle Mileage Allowances and/or Travel time Allowances.

Vehicle Mileage Allowance

Future determinations (including the ones covering the periods post 2010 elections) will contain the following, or similar, wording:

- (1) A local authority may pay a member or a member of a community board a vehicle mileage allowance for travel by the member each day, but only if—
 - (a) the member is not otherwise provided with a vehicle by the local authority; and
 - (b) the distance travelled by the member on the day exceeds the threshold distance; and
 - (c) the travel is—
 - (i) in a private vehicle; and
 - (ii) on the local authority’s business; and
 - (iii) by the most direct route that is reasonable in the circumstances.
- (2) The vehicle mileage allowance is payable only in respect of the member's travel for that day that exceeds the threshold distance.
- (3) The maximum vehicle mileage allowance payable to the member in any twelve month period (pro-rated for the period of this determination) is—
 - (a) \$0.70 per kilometre for the first 5 000 kilometres;
 - (b) \$0.35 per kilometre for any distance over 5 000 kilometres.
- (4) In this clause,—

on the local authority's business includes travel to and from a member's residence to the offices of the local authority

threshold distance means the distance set by the local authority, which must not be less than 30 kilometres.

Travel Time Allowance

Future determinations (including the ones covering the periods post 2010 elections) will contain the following, or similar, wording:

- (1) A local authority may pay a member or a member of a community board a travel time allowance each day but only if—
 - (a) the travel time of the member on the day exceeds the threshold time; and
 - (b) the travel is on the local authority's business; and
 - (c) the travel is by the quickest form of transport reasonable in the circumstances; and
 - (d) the office of the member cannot be properly regarded as a full-time position.
- (2) The travel time allowance is payable only in respect of the member's travel for that day that exceeds the threshold time.
- (3) The maximum amount payable is \$15.00 per hour.
- (4) In this clause,—

on the local authority's business includes travel to and from a member's residence to the offices of the local authority

threshold time means the time set by the local authority, which must not be less than 2 hours.

Going Forward

The Authority has approved many councils' expense rules where they are consistent with the above.

We have been asked to approve expense rules which do not comply with the above. We will not be approving those expense rules.

Where councils have submitted expense rules which do not comply with the above, rather than the Authority declining each set individually, we would be very grateful if councils would re-submit expense rules which do comply.

Regards



Angela Foulkes
Deputy Chairman