

LOCAL AUTHORITY VEHICLE MILEAGE ALLOWANCE - 2016

This note explains the principles adopted by the Remuneration Authority in setting the terms and conditions of the Vehicle Mileage Allowance, as a well as explaining the logic behind the per kilometre rates. It is updated using the 2014/15 Automobile Association data.

Principles

The Authority adopted the following principles when considering the setting of the Vehicle Mileage Allowance:

Principle 1: The Authority does not intend to meet the costs of an elected member getting to and from work, where the elected member lives within normal commuting distance of the nearest office of the local authority. This is because:

- a) The pay scales that the Authority uses to set elected member remuneration are based on pay scales used for other public service positions, where there is no doubt that the costs of travel to and from work is the responsibility of the job holder, and
- b) It is normal practice for people engaged in providing regular services to a single body to meet their own costs of travel to and from the place of employment.

Principle 2: Any mileage allowance should meet the reasonable additional costs incurred by the elected member in using their own vehicle for travel required on council business. This includes travel to and from the place of work in excess of normal commuting distance.

Principle 3: The Authority will apply averages in setting per kilometre rates and normal commuting distances. This means that the Authority will use average vehicle operating costs for average sized and specified cars travelling on average roads, and average kilometres travelled per annum by the population as a whole.

Principle 4: Wherever possible the Authority will use independent sources of information.

Threshold Distance

The application of Principle 1 requires the Authority to consider is what a “normal commuting distance”. Taking into account that commuting distances in the country tend to be longer than in urban areas, but not wishing to penalise country elected members, the Authority looked at average commuting distances in cities and large towns.

The Authority considered that it would be fair to regard a normal commuting distance as being 15 kilometres. The Authority recognises that this is an average and that, even in urban areas, some people commute more than 15 kilometres.

This means that any elected member living within 15 kilometres of their nearest office will meet their own cost of getting to and from work.

Members living more than 15 kilometres away from their nearest office may claim the allowance for distances in excess of the normal commuting distance. This means that they can claim for distances in excess of 30 kilometres (i.e. the round trip normal commuting distance).

If the mileage allowance were to apply for total distance travelled for people living more than 15 kilometres away for work, then that would be unfair on those living within 15 kilometres, who are meeting their own commuting costs.

The threshold for people living within the normal commuting distance is set at twice the distance between their home and place of work, so that both groups of people can claim mileage for any travel outside of normal commuting distance.

Per Kilometre Rates

Principle 4 using data on the costs of owning and running a car – this is regularly published by the Automobile Association, which has also supplied us with background data which enables deeper analysis.

The latest Automobile Association publication of car running costs is dated 2014/15. That data is based on the New Zealand average distance travelled of 14,000 kilometres per year for new vehicles over a 5 year period.

That report contains the following data:

| Vehicle | Engine size | RRP | Average Cost | Operating Costs (cents per km) | | |
|---------|-----------------|-------------|--------------|--------------------------------|--------------------|--------------------|
| | | | | 14,000 km per year | 19,000 km per year | 24,000 km per year |
| Compact | 1501cc - 2000cc | To \$42,000 | \$34,284 | 65c | 55c | 49c |
| Medium | 2001cc - 3500cc | To \$60,000 | \$47,462 | 80c | 67c | 60c |
| Large | 3500cc + | To \$75,000 | \$66,893 | 109c | 90c | 80c |

Bearing in mind that Principle 2 requires that additional costs be met by the allowance and that, on average, people drive 14,000 km per annum for personal use, then one can calculate:

- The cost of personal use, being the cost for the first 14,000 km per year, and
- The additional costs that will be incurred if an elected member needs to travel over 14,000 km in a year because of council business. This additional cost can be worked out by calculating the cost of the first 14,000 km in a year and the cost of the total

distance in a year (including council travel) – the difference is the additional cost of council travel. This difference can then be expressed as a rate per km.

These calculations are shown below (based on the data from the AA report) where an extra 5,000 km a year is travelled on council business:

| Vehicle | Cost rate for first 14,000 km | Personal Cost of first 14,000 km | Cost rate for 19,000 km | Cost of 19,000 km | Cost of additional 5,000km | Additional cost per km |
|----------------|--------------------------------------|---|--------------------------------|--------------------------|-----------------------------------|-------------------------------|
| Compact | 65c per km | \$9,100 | 55c per km | \$10,450 | \$1,350 | 27c |
| Medium | 80c per km | \$11,200 | 67c per km | \$12,730 | \$1,530 | 31c |
| Large | 109c per km | \$15,260 | 90c per km | \$17,100 | \$1,840 | 37c |

Below are comparative calculations where an extra 10,000km a year is travelled on council business:

| Vehicle | Cost rate for first 14,000 km | Personal Cost of first 14,000 km | Cost rate for 24,000 km | Cost of 24,000 km | Cost of additional 10,000km | Additional cost per km |
|----------------|--------------------------------------|---|--------------------------------|--------------------------|------------------------------------|-------------------------------|
| Compact | 65c per km | \$9,100 | 49c per km | \$11,760 | \$2,660 | 27c |
| Medium | 80c per km | \$11,200 | 60c per km | \$14,400 | \$3,200 | 32c |
| Large | 109c per km | \$15,260 | 80c per km | \$19,200 | \$3,940 | 39c |

It can be seen from the above that the additional cost per km incurred for the council travel is 32 cents if a councillor:

- drives a medium sized car, and
- normally does 14,000 km per year for personal travel, and
- does an extra 10,000 km in a year on council business.

Even if the councillor drives a large car (which is above average size) the additional cost per km is only 39 cents.

Using additional data supplied by the Automobile Association we have examined yearly costs associated with much higher additional yearly mileage by assuming higher depreciation rates, more frequent tyre replacement and higher repair costs. Yearly costs are shown in the following table for a car costing \$50,000 and owned for 5 years:

| | | | |
|----------------------------|-----------------|-----------------|-----------------|
| Km per year | 14,000 | 30,000 | 40,000 |
| Value of car after 5 years | \$18,100 | \$8,700 | \$4,900 |
| Costs per annum | | | |
| Licence and WOF | \$337 | \$337 | \$337 |
| Insurance | \$911 | \$911 | \$911 |
| Interest and depreciation | \$6,975 | \$8,591 | \$9,269 |
| Total Fixed Costs | \$8,223 | \$9,840 | \$10,518 |
| Fuel | \$2,702 | \$5,790 | \$7,720 |
| Tyres | \$507 | \$1,086 | \$1,448 |
| Repairs | \$635 | \$1,361 | \$1,815 |
| Total Running Costs | \$3,933 | \$8,417 | \$11,219 |
| Total Costs | \$12,156 | \$18,256 | \$21,737 |
| Cost per km | 86.8c | 60.9c | 54.3c |
| Personal cost | | <u>\$12,156</u> | <u>\$12,156</u> |
| Additional Cost | | \$6,100 | \$9,581 |
| Additional cost per km | | 38c | 37c |

Reimbursement using standard Remuneration

| | | |
|------------------------|----------------|-----------------|
| Authority rates | \$7,770 | \$11,470 |
|------------------------|----------------|-----------------|

Conclusion

Taking into account all the above data, the Authority believes that the mileage rate of 74 cents for the first 5,000 kilometres of council travel and 37 cents for distances in excess of 5,000 kilometres is fair compensation for any additional costs incurred by an elected member in using their own car for council business travel.

Remuneration Authority

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