

DATE OF MEETING | December 17, 2018

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**SUBJECT | COUNCIL REMUNERATION**

## **OVERVIEW**

### **Purpose of Report**

To seek direction from Council with remuneration options relating to the elimination of the one-third deemed tax exemption for members of Council, annual cost of living adjustments and a Council Spending and Amenity Policy review. |

### **Recommendation**

That Council:

1. adjust Council base salaries to compensate net pay for the 1/3 tax exemption effective 2019-JAN-01;
2. amend the "Council Spending and Amenities Policy" to include a provision to annually revise the base compensation for Mayor and Council by applying the BC Annual Percent Consumer Price Index to the prior year's base compensation amount to a maximum of 2% per year; and,
3. Appoint an independent Council Remuneration task force to undertake a comprehensive review of Council compensation, Council Spending and Amenities Policy and any other related matters deemed appropriate by Council. The Council remuneration task force should be appointed no later than 2021 and submit its recommendations to be implemented January 2023.

## **BACKGROUND**

Council remuneration is guided by the "Council Spending and Amenities Policy" (Attachment A) dated May 2016.

The purpose of this report is to seek direction from Council on three remuneration issues:

### **1. Elimination of the One Third (1/3) Tax Exemption**

Currently Members of Council have a one third (1/3) deemed tax exemption on their earnings as per Canada Revenue Agency guidelines. Therefore, fewer taxes are deducted, resulting in a higher take home pay. The City is able to claim a GST rebate on the one third (1/3) exempt portion, resulting in a higher offset to GST payable for the City.

Effective 2019, the Federal Budget requires that current non-accountable allowances paid to Members of Council be included as taxable income and taxed. The reimbursement of employment expenses (i.e. kilometer reimbursement) remains a non-taxable benefit. Unless Council remuneration is increased, the net compensation (take home pay) will be reduced by \$4,753 per year.

### **Survey Conducted**

Accounting Services conducted a survey of 12 municipalities, six (6) with a population lower and six (6) with a population higher than Nanaimo, to determine how other municipalities are handling the elimination of the one-third non-taxable portion. Only 11 of the municipalities provided the requested information.

#### **Survey Results:**

3	Municipalities will fully tax earning without grossing them up
4	Municipalities have grossed up earnings to effectively compensate members of Council
4	Municipalities have not yet determined how they will be handling this change

### **Financial Impacts**

The gross annual recommendation cost for the nine members of Council will require an adjustment of \$63,933 to address the Federal income tax changes (\$15,485 for Mayor and \$6,056 per Councillor).

In addition, the City must increase its share of deductions for Members of Council relating to CPP due to the elimination of the one third (1/3) exempt portion (CPP \$7,232).

The following table illustrates the financial implications to Members of Council and assuming basic tax exemptions.

	<b><i>Current 2018 Total Annual Remuneration</i></b>	<b><i>Proposed New 2019 Annual Salary – Fully Taxable adjusted to 2018 Net Pay</i></b>	<b><i>Net Change</i></b>
<b><i>Mayor</i></b>			
<b><i>Annual Remuneration</i></b>	<b>\$ 95,103</b>	<b>\$ 110,588</b>	<b>\$ 15,485</b>
<i>Taxable Earnings</i>	63,402	110,588	
<i>Non-Taxable Earnings</i>	31,701	-	
<b><i>Deductions:</i></b>			
<i>Income Taxes</i>	(11,271)	(26,756)	(15,485)
<i>CPP</i>	(2,594)	(2,594)	-
<b><i>Net Pay</i></b>	<b>\$ 81,238</b>	<b>\$ 81,238</b>	<b>\$ -</b>
<b><i>Per Councillor</i></b>			
<b><i>Annual Remuneration</i></b>	<b>\$ 36,636</b>	<b>\$ 42,692</b>	<b>\$ 6,056</b>
<i>Taxable Earnings</i>	24,424	42,692	
<i>Non-Taxable Earnings</i>	12,212	-	
<b><i>Deductions:</i></b>			
<i>Income Taxes</i>	(1,914)	(5,777)	(3,863)
<i>CPP</i>	(1,036)	(1,940)	(904)
<b><i>Net Pay</i></b>	<b>\$ 33,686</b>	<b>\$ 34,975</b>	<b>\$ 1,289</b>

It is recommended that the gross compensation for Mayor and Council be adjusted to offset the impacts of the Federal income tax changes and to maintain Council net compensation.

## 2. Annual Cost of Living Adjustment

The current Council Spending and Amenities Policy is silent on the subject of annual adjustments. There have been no adjustments to the base salary amounts since 2015.

The current policy requires a survey of 12 municipalities to be completed at the beginning of the Council term to determine the new Council base rates. The Policy does not incorporate any increased measures for the years between Council terms.

Many Municipalities include language in their Council remuneration policies for annual increases equal to Consumer Price Index (CPI). In the past, the City of Nanaimo Council remuneration policy has included an annual CPI increase. This practice was eliminated with the adoption of the Current Council Spending and Amenities Policy in 2016.

Staff recommends an annual inflationary adjustment occur in January based on the annual averages CPI for British Columbia published by Statistics Canada for the twelve-month period January to December of the previous year. Council may wish to cap this inflationary

provision to provide certainty should CPI rates escalate. Staff recommend an annual inflationary adjustment up to a maximum of 2%.

### 3. Council Spending and Amenities Policy Review

It is the practice of medium and large municipalities to periodically conduct Council remuneration and accompanying policies reviews. This would be considered a best practice and good governance.

Such reviews are often undertaken by an appointed independent panel of 4 - 6 community members who might represent legal, financial, human resource and community expertise. The timing of such a review may occur at any time but often occurs in advance of a municipal election. In this case, Council would have the option to initiate a review in 2021 to be applicable to the Council elected in October 2022. Alternatively, Council may choose to advance the review given this did not occur in recent years.

Staff recommend that Council direct staff to prepare a draft terms of reference for a Council Remuneration Task Force. Unless otherwise directed by Council, the Task Force should be appointed no later than 2021 and completed its review in 2022.

## **OPTIONS**

1. Council,
  - adjust Council base salaries to compensate net pay for the 1/3 tax exemption effective 2019-JAN-01.
  - amend the “Council Spending and Amenities Policy” to include a provision to annually revise the base compensation for Mayor and Council by applying the BC Annual Percent Consumer Price Index to the prior year’s base compensation amount to a maximum of 2% per year, and
  - Appoint an independent Council Remuneration task force to undertake a comprehensive review of Council compensation, Council Spending and Amenities Policy and any other related matters deemed appropriate by Council. The Council remuneration task force should be appointed no later than 2021 and submit its recommendations for implementation January 2023.
    - **Budget Implication:**
      - For 2019, Wages and benefits increase by an estimated \$71,165 and would be funded from general taxation (0.07% approximate tax increase).
      - For 2020 – 2022, estimates for CPI will be included in the 2019 – 2023 Financial Plan for Council remuneration increases to a maximum of 2% per year.
    - **Legal Implication:** The City would comply with federal law, as all Council remuneration would be fully taxable.
    - **Policy Implication:** This is in accordance with the Council Spending and Amenities Policy No. 1-0530-05.
2. Council could choose an alternate remuneration scheme. |

### **SUMMARY POINTS**

- Effective 2019-JAN-01, the Federal Budget requires that current non-accountable allowances paid to Members of Council be included as taxable income and taxed.
- For 2019, wages and benefits for Council would be increased to compensate for the elimination of the one third (1/3) tax exemption. The financial impact is \$71,165 to be funded from general taxation (0.07% approximate tax increase).

### **ATTACHMENTS**

- Attachment A: Council Spending and Amenities Policy 1-0530-05
- Attachment B: Council Remuneration Survey Results

**Submitted by:**

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