



# Staff Report for Decision

DATE OF MEETING | December 17, 2018 |

AUTHORED BY | JAKE RUDOLPH, INTERIM CHIEF ADMINISTRATIVE OFFICER |

**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>Current 2018 Total Annual Remuneration</b>	<b>Proposed New 2019 Annual Salary – Fully Taxable adjusted to 2018 Net Pay</b>	<b>Net Change</b>
<b>Mayor</b>			
<b>Annual Remuneration</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>Deductions:</b>			
<i>Income Taxes</i>	(11,271)	(26,756)	(15,485)
<i>CPP</i>	(2,594)	(2,594)	-
<b>Net Pay</b>	<b>\$ 81,238</b>	<b>\$ 81,238</b>	<b>\$ -</b>
<b>Per Councillor</b>			
<b>Annual Remuneration</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>Deductions:</b>			
<i>Income Taxes</i>	(1,914)	(5,777)	(3,863)
<i>CPP</i>	(1,036)	(1,940)	(904)
<b>Net Pay</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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Interim Chief Administrative Officer



CITY OF NANAIMO  
THE HARBOUR CITY  
COUNCIL POLICY MANUAL

<b>Section:</b>	<b>Administration</b>	<b>1</b>
<b>Subsection:</b>	<b>Council - General</b>	<b>0530</b>
<b>Title:</b>	<b>Council Spending and Amenities Policy</b>	<b>05</b>

## **POLICY**

The City of Nanaimo (the City) will establish transparent spending management practices in providing tools and amenities to its elected officials.

This policy shall be reviewed in 3 years from its effective date to determine its effectiveness and appropriateness. This policy may be assessed before that time as necessary to reflect organizational change.

## **REASON FOR POLICY**

To establish governance and control parameters regarding expenditure for and by elected officials. The Policy is intended to:

- provide a consistent oversight process for expenditure for and by elected officials;
- protect the interests of taxpayers by ensuring the City obtains the best value for its money.

## **AUTHORITY TO ACT**

Retained by Council with some delegation to Staff.

## **PROCEDURE**

### **1. Responsibilities**

#### 1.1 Council to:

- 1.1.1 approve this policy;
- 1.1.2 approve future amendments to this policy.

#### 1.2 Mayor to:

- 1.2.1 review and approve expenditures incurred by the Acting Mayor;
- 1.2.2 bring forward future amendments to this policy for Council's consideration.

#### 1.3 Acting Mayor to:

- 1.3.1 review and approve expenditures incurred by the Mayor and other Councillors;
- 1.3.2 bring forward future amendments to this policy for Council's consideration.

- 1.4 Chief Administrative Officer:
  - 1.4.1 support elected officials by reviewing requests to expend funds;
  - 1.4.2 review and approve administrative procedures and guides that support efficient response to elected official spending requests.
- 1.5 Director of Finance to:
  - 1.5.1 Support elected officials by reviewing requests to expend funds;
  - 1.5.2 provide an accounting report of elected official spending on a quarterly basis;
  - 1.5.3 develop administrative procedures and guides that support efficient response to elected official spending requests.

## 2. Application of Policy

- 2.1 The Policy applies to:
  - 2.1.1 Council remuneration;
  - 2.1.2 attendance at in-town or out-of-town meetings;
  - 2.1.3 training and development;
  - 2.1.4 expense reimbursement;
  - 2.1.5 legal fees;
  - 2.1.6 association fees and membership dues;
  - 2.1.7 provision of certain equipment and furniture to Elected Officials such as the following:
    - i. office Equipment;
    - ii. cellular phones and related plan features;
    - iii. internet plans;
  - 2.1.8 Council initiatives.

## 3. Council Remuneration

- 3.1 **Base Pay Rate** - Mayor and Council will be compensated at the median rate of twelve comparable municipalities. Such list of comparable municipalities are the six above and six below the City's population. The list of comparable municipalities will be updated at the beginning of each Council term.
- 3.2 **Acting Pay Rate** – The Acting Mayor will be provided acting pay at a rate of 10% of the Mayor's base compensation. *(2016-APR-04, 2016-MAY-02)*
- 3.3 **Medical Benefits** – Council will be afforded the same level of benefits as those provided to management.

## 4. Attendance at In-Town or Out-of-Town Meetings

- 4.1 **In-Town Meetings** – Elected Officials are authorized to attend in-town meetings as they deem appropriate.
- 4.2 **Out-of-Town Meetings** – Elected Officials are authorized, as approved by resolution to attend the following out-of-town meetings as applicable and as they deem appropriate:
  - i. Federation of Canadian Municipalities (FCM) conventions and other meetings;
  - ii. Union of BC Municipalities (UBCM) conventions and other meetings; and,
  - iii. Association of Vancouver Island and Coastal Communities (AVICC) conventions and other meetings.

4.3 The Mayor and Acting Mayor may attend out-of-town emergency meetings on behalf of the City upon pre-notification of Council via email and provide a report at the next Council meeting.

4.4 Any travel other than provided for in 4.2 or 4.3 above, will require prior approval by Council.

## **5. Training and development**

5.1 Mayor and Council may undertake training and development courses subject to budget availability and travel approval provided in Section 4 – In-Town and Out-of-Town Meetings of this policy as applicable.

## **6. Expense Reimbursements**

6.1 Mayor and Council will be afforded the same expense reimbursement and per diem as provided to all employees of the City.

6.2 Mayor and Council will be allocated up to \$1,000 each for travel, hospitality and conference activities directly related to City business and the office of a Council member. *(2016-MAY-02)*

6.3 Mayor and Council members must deliver a report on their activities to Council as soon as practicable. *(2016-MAY-02)*

6.4 Up to \$3,000 for the Federation of Canadian Municipalities annual conference; \$2,500 for the Union of BC Municipalities annual conference; and, \$1,000 for the Association of Vancouver Island & Coastal Communities annual conference will be allocated for each approved member of Council to attend these conferences. *(2016-MAY-02)*

## **7. Legal Fees**

7.1 Council, by resolution, may approve paying legal fees for a Councillor on a matter arising from a decision of Council subject to a dollar value limit at the discretion of Council.

7.2 Conflict of Interest Opinions – Council will provide a budget allocation per Councillor per year to cover the cost for each individual Councillor to secure an opinion whether they are in a conflict of interest on a matter before Council. Such expenditure will be pre-approved by the Chief Administrative Officer. This will be treated as a taxable benefit to the benefiting Councillor.

7.3 Opinions secured through provisions of 7.2 above remain the property of the individual Councillor and the Councillor may release individual opinions at their discretion to Council or members of the public.

7.4 Council may, through resolution, direct for a legal opinion on a perceived or actual conflict of interest should an individual Councillor not take advantage of provisions of 7.2 above.

## **8. Association Fees, Membership Dues and Publication Subscriptions**

8.1 The City of Nanaimo will pay for association fees, membership dues and publication subscriptions at the request of an individual Councillor provided such membership or publication is in local government in North America.

## 9. Office Equipment and Furniture

- 9.1 Office Equipment – The City of Nanaimo shall provide each Councillor upon request, a filing cabinet to store City files at their residence.
- 9.2 The City of Nanaimo will provide each Councillor telecommunications and other equipment such as laptop, printer/scanner/copier/fax, and smartphone that meets their individual needs and expectations in fulfilling their duties.
- 9.3 Retiring members of Council may purchase items provided in 9.1 and 9.2 at a depreciated value over four years.
- 9.4 The City will pay a monthly allowance for internet services at a Councillor’s home for City business and such an allowance will not be taxed.
- 9.5 The City will pay an amount equivalent to the cost for service for a City issued cellular phone service to a Councillor who chooses to use a personal cellular phone service.

## 10. Council Initiative

- 10.1 The City will allocate contingency funds for Council initiatives within each annual budget.
- 10.2 Commitment of funds provided in 10.1 shall be through a Council resolution.

Date:	2016-MAR-21	Approved by:	Council
1. Amendment Date:	2016-APR-04	Approved by:	Council
2. Amendment Date:	2016-MAY-02	Approved by:	Council

**MAYOR & COUNCIL COMPENSATION SURVEY RESULTS**

Municipality	Population (1)	No. of Council	Acting Mayor	1/3 tax free	Last review	Mayor	Councillor	Estimated Acting Pay (2)	Total	How are they dealing with the 1/3 exemption
New Westminster	73,928	7	Yes	Yes	2017	106,034	43,189	2,000	45,189	To be determined
North Vancouver (District)	85,842	7	Yes	Yes	28-Jun-18	104,005	41,602	2,444	44,046	Increasing salary to have the same take home pay as in 2018
Victoria	86,130	9	No	No		106,458	42,583	-	-	Stopped providing 1/3 exemption in 2009
Maple Ridge	87,713	7	Yes	Yes		96,417	38,944	3,214	42,158	Increasing salary to have the same take home pay as in 2018
Chilliwack	88,287	7	Yes	Yes	2-Oct-18	99,222	37,852	1,654	39,506	Increasing salary to have the same take home pay as in 2018
Kamloops	92,317	9	No	Yes		95,124	38,049	-	38,049	Fully Taxable
Delta	102,679	7	Yes	Yes	2016	118,874	50,470	1,981	52,451	Unknown
Saanich	115,864	9	No	Yes	1-Mar-18	102,887	41,310	-	41,310	To be determined
Kelowna	127,330	9	Yes	Yes	11-Jun-18	95,695	33,493	525	34,018	Looks like they Increased salary to have the same take home pay as in 2018
Langley (District)	127,730	9	Yes	No	1-Jan-18	118,598	47,439	1,482	48,921	To be determined
Abbotsford	145,102	9	Yes	No	2016	97,600	38,500	2,440	40,940	Fully Taxable
<b>Median of above (3)</b>	<b>92,317</b>					<b>\$ 102,887.39</b>	<b>\$ 41,309.50</b>			

Add: Acting Pay per Policy - 10% of Mayor Base \$ 1,286 \$ 42,596

<b>City of Nanaimo (current)</b>	<b>94,743</b>					<b>\$ 95,103</b>	<b>\$ 35,447</b>	<b>\$ 1,189</b>	<b>\$ 36,636</b>	
Difference from median						\$ 7,784	\$ 5,863	\$ 97	\$ 5,960	
Percentage						7.6%	14.2%			

**NOTE:**

- (1) BC Stats estimated population for 2017 (latest available)
- (2) Acting pay calculations were given but some assumptions were made about how long the acting pay term was when that information was not provided