

Kilometrage Reimbursement for Use of Personal Vehicles for City Business

Date:	July 5, 2010
To:	Employee & Labour Relations Committee
From:	City Manager
Wards:	All Wards
Reference Number:	P:\2010\InternalServices\PPEB\EL10009ppeb (AFS #12254)

SUMMARY

This report recommends the implementation of a revised policy with regard to kilometrage reimbursement for the use of personal vehicles for City business for all non-union employees, effective December 31, 2011.

The recommended policy outlines the rules, oversight and administration required for non-union employees who receive kilometrage reimbursement for the use of personal vehicles for business related purposes. This policy incorporates best practices which include limiting reimbursement to the current maximums outlined through the Canada Revenue Agency (CRA).

RECOMMENDATIONS

The City Manager recommends that:

1. City Council approve the Policy contained in Attachment 1 titled *Kilometrage Reimbursement for use of Personal Vehicles for City Business* to be implemented on December 31, 2011 for all non-union employees.
2. City Council direct the Human Resources Division to negotiate similar provisions with each union/association, when appropriate.

Financial Impact

Implementation of the Policy contained in Attachment 1 titled *Kilometrage Reimbursement for use of Personal Vehicles for City Business* for non-union employees

will result in a savings of approximately \$20,000 annually, based on 2009 usage. The revised policy will reduce the current rate of \$0.52 per kilometre to \$0.46 per kilometre after the first 5,000 kilometres. If negotiated to include all unionized employees, the savings would grow to approximately \$60,000 annually.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

At its meeting of July 22, 23 and 24, 2003, City Council approved a policy for non-union employees for mileage reimbursement for use of personal vehicles, including a provision that the mileage reimbursement rates be adjusted annually as required to remain consistent with those applicable to union employees (re: Administration Committee Report No. 4, Clause 1b titled *Harmonization of Compensation Related Policies – Non-Union*). Following is a link to the City Council decision.

<http://www.toronto.ca/legdocs/2003/agendas/council/cc030722/admc1001b.pdf>

ISSUE BACKGROUND

The City of Toronto compensates employees for the costs incurred when using their personal vehicle to conduct City business. The current policy provides compensation at a rate of \$0.52 per kilometre, which covers the cost of gas, wear and tear, maintenance and insurance.

The amount of reimbursement is negotiated through the collective bargaining process for unionized employees. For non-union employees, the mileage rate is adjusted annually as required to remain consistent with the rate applicable to union employees.

Attachment 2 is a chart providing the relevant provisions of each of the collective agreements outlining the current reimbursement rates.

Attachment 3 is a copy of the existing kilometrage reimbursement policy for non-union employees.

COMMENTS

Based on the 2003 Council approved report which harmonized a number of compensation related policies for non-union employees, staff review the kilometrage reimbursement levels set by the unions following each round of collective bargaining, and update the amounts for non-union staff to ensure that the rates for non-union employees remain in line with those of the unionized employees.

Given that the kilometrage rates for unionized employees are outlined in the various collective agreements, they cannot be altered outside of the collective bargaining process.

The current reimbursement rate is \$0.52 per kilometre, for each union/association. As a result, the rate for non-union employees is also set at \$0.52 per kilometre.

Income Tax Act

The *Income Tax Act* outlines the rates set annually by the federal Department of Finance with respect to permitting the deductibility of the allowance by the employer as a business expense and in excluding the allowance from the employees' income. The rate set for 2010 is \$0.52 per kilometre for the first 5000 kilometres and \$0.46 for each additional kilometre.

Although the rates are set in the *Income Tax Act*, CRA utilizes this information as a "guideline" in determining what is reasonable. The CRA will consider higher rates as being non-taxable if there is evidence provided to demonstrate that the higher rate is reasonable in the circumstance. The City of Toronto has written to the CRA and requested that it allow for the rates established through the existing collective agreements until December 31, 2011, which is when the existing CUPE contracts expire.

In making this request, the City of Toronto provided the following information to support that the rate of \$0.52 set by the City of Toronto is reasonable:

Canadian Automobile Association (CAA) – 2009 Edition of Driving Costs

This publication reports on a study conducted in 2008 by the CAA in which the operating and ownership cost per kilometre for two sample cars, a Chevrolet Cobalt Lt and a Dodge Grand Caravan, were reviewed. The components included in the operating cost were fuel, maintenance and tires while the components in the ownership cost are insurance, license and registration, depreciation and finance expense. Based on this study, the operating and ownership cost per kilometre in 2009, in Canada, based on 12,000 km driven annually, is \$0.65 per kilometre for the Chevrolet Cobalt Lt and \$0.86 per kilometre for the Dodge Grand Caravan.

The CRA agreed with the City's request for this exemption which will remain in place until December 31, 2011.

Recommended Policy

Staff are recommending that City Council approve the policy attached as Appendix 1 titled *Kilometrage Reimbursement for Use of Personal Vehicles for City Business* for all non-union employees. This policy differs from the existing policy in two key areas:

- a) it formalizes the rules and requirements regarding reimbursement; and,
- b) it introduces a sliding scale of reimbursement levels, consistent with the amounts allowable through the *Income Tax Act*.

a) Rules, Oversight and Administration

The revised policy outlines the criteria in which employees will be reimbursed, situations where employees will not be reimbursed and the requirement for proper completion and submission of forms. In addition, the policy requires each Division to regularly monitor the kilometrage claimed by employees and to ensure that any claim in excess of 1,000 km per month is investigated, including consideration for a lower cost alternative.

b) Implementation of a sliding-scale reimbursement level which is consistent with the CRA allowable amounts

Staff are recommending that the City change its reimbursement level to a sliding scale which is directly aligned to the amounts set out in the *Income Tax Act*. The automobile allowance rates for 2008, 2009 and 2010 are 0.52 per kilometre for the first 5,000 kilometres; and 0.46 per kilometre thereafter.

Staff have benchmarked other organizations and can confirm that moving to this sliding scale reimbursement schedule is consistent with the majority of other public sector organizations. In addition, the amounts remain competitive and are closely linked with those of the unionized employees and should have minimal impact on non-union employees.

Attachment 4 is a chart outlining a comparison of other public sector organizations kilometrage reimbursement schedules.

The City of Toronto has reached an agreement with the CRA that recognizes that the current rate of 0.52 per kilometre is reasonable. This agreement will expire on December 31, 2011. As a result, staff are recommending implementation of a revised policy for non-union employees to be implemented on December 31, 2011, which is aligned with the schedule set out through the CRA. The revised policy will not result in material savings, however, will ensure that the City of Toronto incorporates best practices, due diligence and oversight in the kilometrage reimbursement process and will align us more closely with other public sector organizations.

In order to provide fair and reasonable notice to employees regarding a policy change and recognizing our current approved exemption received from the CRA, staff are

recommending that the policy be implemented on December 31, 2011 for non-union employees. In addition, staff are recommending that similar provisions be negotiated with each of the unions/associations, when appropriate.

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SIGNATURE

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ATTACHMENTS

Attachment 1 – Kilometrage Reimbursement for Use of Personal Vehicle Policy
Attachment 2 – Existing City of Toronto Agreements
Attachment 3 – Current Human Resources Policy on Mileage Reimbursement
Attachment 4 – Kilometrage Reimbursement – Public Sector Organizations