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Committee Regional Land Transport
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Potential Regional Fuel Tax

1. Purpose

To advise the Committee of the recent regional fuel tax announcement by the Minister of Finance in the Budget 2007.

2. Significance of the decision

The matters for decision in this report **do not** trigger the significance policy of the Council or otherwise trigger section 76(3)(b) of the Local Government Act 2002.

3. Regional fuel tax announcement

Dr Cullen's Budget 2007 speech¹ contained an announcement that a regional fuel tax will become available to regions as an option to fund transport infrastructure projects.

Regional fuel taxes have been previously considered by the Government, but until now have not been provided for in legislation.

The details of the fuel tax are yet to be determined. At this time the key features of Dr Cullen's announced regional fuel tax are:

- the primary purpose is to enable regions to raise funds for priority transport projects where these projects would not otherwise be funded within a timeframe desired by the region
- the tax can only be used to fund infrastructure projects
- the maximum tax is to be 10c/litre, with a maximum of 5c/litre available for roading projects

¹ <http://www.beehive.govt.nz/ViewDocument.aspx?DocumentID=29350>

- it is anticipated that regions may borrow to finance projects and use the income from regional fuel tax to repay the loan
- the regional fuel tax is to be levied by a “body representing the region”. The government has announced that in the Wellington region this will be Greater Wellington. Central Government may also levy the regional fuel tax where regional priorities include assets owned by the Crown
- regional boundaries for the fuel tax are yet to be determined, but are likely to be those of the existing Local Authority Petroleum Tax boundaries. In the Wellington region there are two – Kapiti, Porirua, Hutt Valley and Wellington City; and the three Wairarapa District Council areas
- a regional fuel tax is to be collected at a wholesale level by oil companies and paid to Land Transport NZ. Land Transport NZ will then pass the funds to the relevant body.

4. Process for applying for a regional fuel tax

The process for applying for a regional fuel tax is still to be developed but is expected to be a three-part process. The first part will likely involve the representing body approaching central government with an initial proposal specifying a desired project or projects, an assessment of their benefit to the region and a proposed tax rate.

If approved, the second step will likely involve negotiating a Development Agreement. The agreement will set out:

- the respective roles of the agencies involved
- information required to justify the tax
- debt financing arrangements
- consultation processes required by statute or considered necessary by either party
- other issues as required.

Once the Development Agreement elements are satisfied a final proposal will be presented to the Ministers of Finance and Transport for a final decision. Following this an Order in Council will be prepared.

5. Implications for the Wellington region

5.1 Quantum of funding available

Total regional fuel sales (both petrol and diesel) in 2005 were approximately 460 million litres. A 10c per litre region wide fuel tax would therefore generate some \$46 million per annum. This figure is higher than the \$35 million estimate included in the commentary associated with the Budget announcement.

While increasing petrol prices would have a negative affect on demand, no growth in consumption has been accounted for either. Total consumption has been reasonably stable over the last four years, despite some significant price increases. The recommended Regional Land Transport Strategy seeks to reduce regional fuel consumption in line with CO₂ reduction targets of 2001 levels by 2016. If successful, annual fuel sales would drop back to 442 million litres, reducing fuel tax revenue to approximately \$44 million per annum.

5.2 Matters requiring further clarification

The Ministry is currently working on the enabling legislation for the regional fuel tax. To date there is little detail available. Officers will be working with Ministry officials where possible to assist to develop the administrative procedures for the collection and allocation of revenue. Amongst other matters officers will be seeking to clarify the consultation and application procedures to ensure they are workable.

Before any regional fuel tax can be introduced in this region further work will be required in the following areas:

- the identification of proposals to be supported by additional fuel taxes
- the extent to which such proposals require additional funding support, and the timing of this support
- the economic and equity impacts of additional fuel taxes
- the area of application of fuel taxes
- the longer term economic sustainability of fuel tax revenues, given that vehicle efficiency is improving and that capital for infrastructure projects is likely to be borrowed for long terms (e.g. 35 years).

Ministry of Transport officials have advised that legislation is expected to be introduced in the House this year, with a view to having a tax available in mid 2008. Any decision on a regional fuel tax in Wellington is therefore some time away.

The Committee will be kept informed as the Ministry's work progresses.

6. Communication

This is a matter with much public interest. Some media announcements have already been made. Further media statements will be made as appropriate.

7. Recommendations

That the Committee:

1. *Receives the report; and*
2. *Notes the contents of the report.*

Report prepared and approved by:

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