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Fuel levy 'unsuited to funding metros'

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CAPE TOWN — The decision to use the fuel levy to finance metropolitan local government in place of the lapsed regional services council levy was not a good idea, the Financial and Fiscal Commission (FFC) argued this week.

Finance Minister Trevor Manuel announced in his budget that 23% (about R1bn) of the general fuel levy would be earmarked for metropolitan municipalities to support expenditure on roads and transport infrastructure. The levy is expected to raise about R4,9bn in 2009-10.

Distribution of the fuel levy revenue would be phased in over four years and will eventually be based on fuel sales in each metro.

But FFC deputy chairman Bongani Khumalo said the fuel levy was not a good local tax as it did not reflect the direct relationship between taxpayers and their local government service providers. Instead, it was collected nationally through fuel sales and then shared between metropolitan councils.

Khumalo said during a hearing on the Division of Revenue Bill held by the National Council of Provinces' select committee on finance that a good local tax should enhance the fiscal autonomy and discretion of local government; strengthen accountability regarding the use of the tax; yield adequate revenue in the face of cyclical instability; and not disturb macroeconomic balance.

The fuel levy fell far short of these criteria, the FFC argued, because municipalities would have no discretion over the base and rate of the tax.

"The link between the agents who bear the incidence of the fuel levy and the beneficiaries of the services funded by fuel levy revenue sharing is tenuous. "

The FFC also regretted that it had not been consulted on the details of the fuel levy reform package and urged that municipalities should continue searching for their own appropriate taxes.

On the other hand, the South African Local Government Association welcomed the funding of metros with the general fuel levy, but raised a number of concerns.

"The fuel levy allocation is guaranteed an inflation adjustment for the next three years. From 2012-13 the allocation will be solely based on fuel sales per municipality. In the case of a decline in fuel sales, municipalities will receive less as there are no guarantees," it said.