GLOBAL
ROAD SAFETY
PARTNERSHIP

Road Safety Management

Information Note 3: Funding

Background

In July 2000, the UK Department for International Development (DFID) commissioned the Transport Research Laboratory (TRL) and Ross Silcock to undertake a review of road safety management focusing on four key aspects, namely:

- how road safety activities are organized and coordinated;
- the role and effectiveness of road safety strategic/ action plans;
- how road safety is funded; and
- the extent to which the business sector participates in and promotes road safety.

Thirteen case studies (Bangladesh, Bangalore (India), Chile, Ethiopia, Fiji, Ghana, Indonesia, New Zealand, South Africa, Sweden, UK, Victoria (Australia), Zambia) were used to identify and examine good practice. The case studies sought to include different regions, levels of motorization and structures of road safety management in both Low Income Countries (LIC) and High Income Countries (HIC).

Four information notes have been produced by GRSP based on the original report presented to DFID. Each note focuses on one of these aspects of road safety management. There are, however, several overarching principles which apply in all LICs and set a context for the reviews:

- awareness of the road safety problem must be raised in the public, the political and the professional arenas before actions can take place on a serious scale;
- there is a general lack of institutional capacity and of adequately trained staff; and
- road safety is as much a social, economic and public health issue as it is a transport issue. Partnerships between government departments, business and civil society recognize this, and offer a constructive way forward.

This review of road safety funding focused on the different ways in which countries finance road safety. The importance of funding was highlighted throughout the report.

Introduction

Without secure and stable funding, no serious actions can be taken to improve road safety. Likewise, numerous interventions designed to improve road safety in LICs have failed due to lack of sustainable funding. Identifying and securing sustainable funding is thus a key element underlying all road safety action plans.

Funding must be identified to finance a wide range of road safety interventions, including road safety engineering, ambulance and hospital services, driver and vehicle licensing, the testing of vehicles for roadworthiness, driver training and the enforcement of traffic laws and regulations by the police. These activities go well beyond treating hazardous locations, which are usually financed under a specific road safety budget, or under the road maintenance budget. Most of these activities are funded by the public sector, although the private sector may pay for services like driver training and vehicle testing.

Sources of funding

The major sources of funds include:

- general tax revenues
- specific taxes (usually traffic fines) earmarked to support spending on road safety
- levies added to insurance premiums
- road funds that derive their revenues from road user charges
- sponsorship by private businesses

Few countries appreciate how much they are already spending on road safety. Of the case studies, only the UK had attempted to estimate its road safety expenditures. Several other countries had costed their programs and New Zealand had given priority to documenting the funding sources for its program.

Where public expenditure is explicitly linked to road safety, it is mostly for remedial works, such as treating hazardous locations, rather than for crash prevention. However, few LICs even have remedial works programs. There are examples in LICs of National Road Safety Councils (NRSCs) receiving funding directly from government, but separate road safety budgets are uncommon.

General tax revenues

Road safety interventions are normally regarded as a public sector responsibility. They are included in the budgets of the concerned public sector agencies – the transport ministry, central and local government roads departments, the hospital service and the police – although it is difficult to identify how much each agency spends on road safety. A detailed study in the UK has shown that nearly 57 percent of the total expenditure on road safety is incurred by the private sector (e.g., for driver training and testing, vehicle inspection). Most public sector spending is incurred by the ambulance and hospital services (50 percent) and the police (27 percent). The large impact on the health sector has led to changes which now make it easier for hospitals to claim treatment costs from the insurance companies. The remaining 33 percent spent by the public sector includes spending by the transport ministry, the national road agency and local authorities. Direct budget allocations for road safety are uncommon and NRSCs, or their equivalent, typically suffer from a general shortage of finance.

Earmarked taxes

Earmarking involves assigning a specific tax for a designated purpose. Since the overall budget envelope remains unchanged, earmarking takes money away from the government's budget (the consolidated fund) and this means that budget allocations to other sectors have to be reduced to balance the budget. This is the main reason why earmarking is opposed by finance ministries and the IMF. Earmarking is only likely to be accepted when the earmarked funds involve 'extra' payments by road users. This makes the spending 'neutral' with respect to the government's budget – it neither adds to, nor subtracts from, the revenues available to other sectors. The revenue from traffic fines are sometimes earmarked in this way and used to support the costs of traffic law enforcement. However, this usually abstracts revenues away from the government's budget – and hence is not budget neutral. In the long term, better law enforcement, if successful, will reduce the income from traffic fines. It is thus only worth earmarking traffic fines when the revenues can be clearly shown to generate additional income.

Against the above background, the earmarking of traffic fines is uncommon. Vietnam is the only country known to allocate all of its traffic fines to road safety. The traffic police in Malaysia and the Philippines retain a portion of traffic fines, while earmarking of traffic fines was recently rejected in Ethiopia. The only recent examples of acceptable earmarking have involved installation of new red light enforcement and speed control cameras (red light enforcement cameras check that drivers are obeying traffic light signals). These cameras generate extra revenue and the additional income is allocated to support road safety. For example, in Western Australia, one-third of red light and speed control camera fines are paid into the Road Trauma Trust Fund, while speed camera trials are on-going in the UK with all revenues earmarked to provide additional speed cameras at hazardous locations. Likewise, several states in the USA use traffic fines to part-fund training in law enforcement. Surcharges are imposed on hazardous moving violations in Mississippi, where the funds are used to support emergency medical services, while in New Mexico, the money is donated to a Traffic Safety Education and Enforcement Fund. Better enforcement nevertheless means lower traffic fines in the future.

Levies added to insurance premiums

This involves adding a levy or surcharge to compulsory insurance premiums to help fund road safety activities. Insurance premiums are related to road crash costs and insurance companies therefore have an incentive to reduce crash costs to help reduce the premiums charged.

> The State of Victoria in Australia adds a road safety levy to all vehicle insurance premiums. Finland and the Province of Quebec in Canada have done the same. The levy is accepted by the public as a cost directly related to safe driving habits and it provides drivers with an incentive to drive carefully. Fewer road crashes mean lower vehicle insurance premiums. The levy in Victoria started at 3 percent of third party premiums, but is now 10 percent. Four of the countries studied in the main Road Safety Management report either already impose a levy on vehicle insurance premiums, or are proposing to do so.

An additional surcharge on insurance premiums must be accepted both by the public and by the insurance companies. This can be enhanced by ensuring that there are no exceptions (e.g., government vehicles are exempted in some countries), that the proceeds from the levy are managed transparently and that all insurance companies participate in the scheme to avoid unfair competition.

A major problem with this source of funding is that many of the vehicles in LICs are unlicensed and uninsured -- often around 50 percent. This causes two problems. First, the revenue from the levy is less than it could be while, second, the levy adds to the costs of insurance which increases the number of uninsured vehicles. To reduce evasion, South Africa now collects its third party injury premiums through a fuel levy. Four other Southern African countries have adopted the same procedure and it is also being considered in Mauritius. Collecting the insurance levy through a fuel levy offers the added benefit of relating payments to exposure -- those vehicles which travel more pay more.

Road funds

Road funds that were restructured or set up after 1990 were generally introduced as part of a long-term strategy to commercialize the road sector. The idea was to bring roads into the market place, put them on a fee-for-service basis and manage them like a business. Road users then pay for using the road network and the revenues collected from them are dedicated to finance road development and maintenance, including road safety (see example of the New Zealand road fund which is considered one of the best examples of emerging 'good' practice). These road funds are typically managed by an oversight board that includes representatives of road users and the business community.

The revenue for these road funds typically comes from a levy added to the price of fuel, vehicle registration fees, vehicle license fees and direct road user charges (e.g., tolls and weight-distance fees). The items funded from the road fund vary considerably between countries. In some countries a small percentage of the road fund is allocated to support road safety. Most recently established road funds have a clause in their governing legislation that empowers the board 'to finance such road safety projects as the board may determine.' Where this exists, there is a need for the road and transport authorities to request funds and to support these requests with a well-prepared program of road safety interventions.

Some road funds are trying to encourage spending on road safety by allocating an indicative percentage of their revenues for road safety. For example, the Ethiopian Road Fund Board has recently proposed that up to 3 percent of the road fund could be allocated for road safety. Others, like the Ghana road fund have already begun investing in road safety and are currently supporting the NRSC and a major road crash data collection effort.

Sponsorship

Many private businesses support road safety to benefit their corporate image, to develop new markets through demonstration projects, or to brand their products as safe (see separate *Road Safety Management Information Note 4: The Extent of Business Sector Participation*) They may also benefit from the lower costs associated with fewer road crashes and safer driving practices. The funds are sometimes made available as cash, while at other times they are provided in kind. This kind of corporate sponsorship tends to focus on four main topics:

Road safety education and knowledge transfer

Car manufacturers are major contributors to child road safety education programs, where they provide resource materials and even invest directly in road safety education.

Road safety awareness campaigns

In the UK, these initiatives have included co-financing for taxi services and late night buses to take inebriated drivers home and the provision of free non-alcoholic drinks to designated drivers. They have also included production of educational and publicity materials, together with a code of practice on the naming, packaging and merchandising of alcoholic beverages.

Enforcement campaigns

Businesses often support law enforcement by donating specialist vehicles and breathalyzers to the police.

Driver training and awareness

The private sector frequently operates driving schools, or provides individual instructors, and may sponsor driving competitions to encourage safer driving. They also offer defensive driver training programs.

New Zealand

The Ministry of Finance transfers about 15 percent of the overall revenues from the New Zealand national road fund to the Land Transport Safety Authority (LTSA) under the Ministry of Transport. The funds are used to pay for the costs of operating the LTSA (mainly educational and publicity programs) and for the costs of police road safety enforcement (about 80 percent of the funds received go on this). The balance of the revenues is then transferred to the road fund administration. Most of these funds are used to support road spending under the jurisdiction of Transit New Zealand (national roads) and the local authorities. Among other things, these funds are used to finance the costs of road safety engineering measures (e.g., skid resistance and treatment of hazardous locations).

LTSA assembles the annual police bid (for funds), manages the bidding process, publishes the final program and monitors subsequent performance against agreed outputs. The program is negotiated annually and all road agencies — Transit New Zealand and the local authorities — participate in the bidding process. The starting point is the current year allocation of police effort to a range of outputs. Input from road agencies is sought to seek variations, or increases, in accordance with evidence provided on local road safety risks. Actual outputs are funded on their merits, using benefit/cost analysis. The contractual agreement with the police on deliverables is written into the performance agreement between them and their minister, rather than with the LTSA.

Lessons learned

Road safety interventions are normally regarded as a key responsibility of government and are financed through the budgets of concerned public sector agencies. Public sector funding for road safety should not be restricted to the road authority. The ambulance and hospital service, the police and the school system all have a part to play and their spending will often exceed that incurred by the transport ministry and road authorities. Direct budget allocations for road safety are uncommon and NRSCs, or their equivalent, suffer from a general shortage of finance.

Earmarking of traffic fines is uncommon, since it generally increases the funds available for road safety by taking them away from other public programs. The only recent examples of acceptable earmarking have involved installation of new red light and speed control cameras. These cameras generate extra revenues and the additional income is allocated to support road safety. However, in the long term, better traffic law enforcement will reduce the funds available from traffic fines.

Levies added to insurance premiums are often used to help fund road safety activities. The major constraint on their use in LICs is the large number of uninsured vehicles. To tackle the problem of evasion, some countries are now collecting the insurance surcharge in the form of a fuel levy. An active partnership between government and the insurance industry should be developed, since the insurance industry has a clear, vested interest in improving road safety.

Road funds in LICs currently invest little, if anything, in road safety even though road safety may qualify for funding from the road fund. Some road funds are attempting to deal with this by setting aside a clearly designated proportion of their revenues for road safety. However, the main need is to ensure that the agencies responsible for road safety prepare well-justified plans to support requests for funding from the road fund.
Private businesses may support spending on road safety either directly, or by providing contributions in kind. It can offer management skills and is often also willing to support a variety of road safety interventions.

Key messages — road safety funding

- Funding for road safety interventions needs to be given more priority by governments. Without adequate and stable funding, little progress can be achieved.
- To be practical, all road safety plans should be developed within an agreed budget envelope.
- Independent road safety offices, e.g., National Road Safety Councils (NRSCs), should be given a dedicated budget, not made an additional (un-funded) financial responsibility of the lead ministry responsible for road safety.
- Governments should emphasize how much road crashes cost by publishing information on the number of hospital beds occupied by road crash victims, the share of policing associated with road crashes, and the amount spent on road safety by the transport ministry, the national road agency and the local authorities.
- When traffic fines generate additional revenues (e.g., new red light enforcement and speed control cameras), the additional income should be allocated to support better traffic law enforcement programs. However, in the long term, better traffic law enforcement will reduce the funds available from traffic fines.
- Insurance levies should be used to fund road safety and insurance companies should be required to pay part of the costs of treating road crash victims. To counter evasion, countries should consider collecting the insurance surcharge by way of a fuel levy.
- Road funds should dedicate an indicative percentage of their revenues to support road safety.
- Private business should be encouraged to support effective road safety interventions and to transfer the knowledge and emerging good practice that many have developed under their in-house risk management strategies.

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