

Hidden Subsidies for Urban Car Transportation

Public Funds for Private Transport



Funded by the
European Commission
Directorate General
for Environment

Every year local governments in Germany are estimated to spend some €15 billion on their car traffic. Only between 15% and 45% of these costs are recovered by, for example, parking fees and contributions from regional and national government. The remainder is the equivalent of € 100 – € 150 for every citizen paid from the local authority budget. Results from other European cities indicate comparable subsidies. In the Austrian City of Graz, the net spending for car transport is double the amount contributed to their public transport system (see example further down).

There is growing consensus that government money should only be spent on activities fostering sustainability. Spending money to subsidise car traffic suggests the opposite. This leaflet explores what is behind the subsidies, and what lessons can be learnt.

Urban Transport: the need for change

Urban areas suffer heavily from problems caused by the excessive use of the private car – from congestion to air and noise pollution. Urban transport is not only a significant contributor to climate change, but also the main source of fine particulate matters, the pollutant causing many European Union (EU) cities to exceed the thresholds given in the EU Urban Air Quality Directive.¹

Large urban areas are not viable without public transport. The high density of inhabitants and jobs makes space a very scarce resource. Public, bicycle and pedestrian transportation are in many cases the only means of mobility available to the elderly and young people living in suburban areas. The promotion of environmentally friendly modes of transport, whilst reducing car traffic, is increasingly seen as central to any strategy aimed at creating a sustainable urban environment.

Financing Public Transport

Given the tight budget situation in most European public authorities, subsidies for public transport are increasingly being questioned and subjected to cuts. In order to create a sustainable urban environment however, public transport would have to grow by 2% each year, which could translate to an increase in subsidies. Significant differences exist between European cities in terms of the development of public transport. While passenger numbers in Bologna, Lisbon and Newcastle have been dropping annually by more than 3% the last few years, they have increased annually in Strasbourg and Köln by more than 4%.

In most European countries, local governments have traditionally provided urban public transport, either directly or through associated companies. This corresponds to the insight that public transport is a social service provided by local governments to ensure a certain level of mobility for everybody. Urban public transport, however, has moved from being a profitable industry with a high modal share, to a loss-making one with, in most cases, a minority modal share. It is quite clear that there will still be a need for subsidies in the future. Therefore, it is time to critically revise current practice in providing public transport.

The approach for identifying hidden subsidies

Public money is not only spent on public transport. Significant amounts are spent on other modes of transport, namely in support of car transportation. At the same time, the users of this transportation system, the car owners, contribute to its financing, for example by taxes and parking fees.

The approach presented in this leaflet defines the difference between all public expenditure on car transportation and all public income derived from car transportation as subsidies to car traffic. As it reflects the decisions made by local governments, it only takes into account expenditure and income that directly come from, or is received by, the local government. This means, for example, expenditures which are reimbursed from higher levels of government (e.g. for works on national roads) are not counted as subsidies by the local government. The environmental and health related costs of car transport are not considered in this analysis. Similarly income from other levels of government (e.g. from fuel taxes) or the benefits of car transport (e.g. access of rural population to city) are not counted.



¹ Council Directive 96/62/EC of 27 September 1996 on ambient air quality assessment and management (OJ L296 21.11.1996)

A million here, a million there – how much money do local governments spend?

Local government expenditure on car transportation are mostly associated with building roads. These costs certainly make up a significant share, but they are not the only costs. Local governments provide many more services directly linked to car transportation, the main points being: maintenance of roads and green spaces alongside streets, traffic signals and lighting, traffic police, parking and the administration's car fleet. It also has to be kept in mind that not all these costs are 100% related to car traffic, but also support other modes of traffic. Therefore each figure from the budget has to be looked at carefully to separate the costs for different modes of transport. Most of the time this is not possible, because the budgets are not detailed enough. In these cases, an estimate must be made. For example for roads, 80–90% of costs were generally allocated to car traffic, while 10% of the road is estimated to be used by other means of transport (in terms of space, time and deterioration).

The following table provides some key figures on German cities, which may offer a good comparison because the framework conditions and responsibilities of local governments are similar. The comparison on the basis of per capita numbers shows that there are significant differences in the amounts that German cities spend. It is also interesting to see that cost-recovery levels (i.e. the proportion of expenditure covered by the income generated) vary significantly between 15% and 47%. The figures from Ferrara in Italy, Genève in Switzerland and Graz in Austria indicate that the situation in other European countries is comparable.

	Budget year	Inhabitants	Income from car transportation	Expenditure for car transportation	Difference	Subsidy per inhabitant	Cost-Recovery
Heidelberg	2004	142.500	13.137.822	30.634.581	17.496.759	122,8	42,9%
Rotenburg	2003	22.500	693.380	3.094.252	2.400.872	106,7	22,4%
Ludwigsburg	2000	86.936	9.090.874	19.293.557	10.202.683	117,4	47,1%
Düsseldorf	2002	569.046	24.699.867	167.106.878	142.407.011	250,3	14,8%
Lüneburg	2000	70.000	3.411.848	9.194.623	5.782.775	82,6	37,1%
Augsburg	2000	254.867	21.046.353	47.766.056	26.719.703	104,8	44,1%
Aschaffenburg	2002	67.788	3.041.045	11.366.940	8.325.895	122,8	26,8%
Freiburg	2000	201.000	17.163.087	37.993.383	20.830.296	103,6	45,2%
Ingelheim	2003	26.000	1.264.617	6.985.282	5.720.665	220,0	18,1%
Bremen	2000	547.000	12.551.020	72.959.184	60.408.163	110,4	17,2%
Dresden	2000	459.000	9.132.653	65.306.122	56.173.469	122,4	14,0%
Stuttgart	2000	581.000	20.663.265	104.591.837	83.928.571	144,5	19,8%
Average Germany (based on inhabitant numbers)						145,5	29,1%
Graz	2003	238.000	20.832.664	60.959.484	40.126.820	169,0	34,0%
Geneve	2002	182.560	13.944.143	40.038.362	26.094.219	142,0	34,8%
Ferrara	2002	130.000	3.553.267	9.310.289	5.757.022	440	38,2%

These figures do not differentiate between fixed subsidies, and those that could be avoided. For example spending money on traffic police might seem rather indispensable. Providing a fleet of vehicles to city employees could, on the other hand, be seen as unnecessary. However, this publication leaves this discussion to the political arena.

For German cities, administrations, councillors and citizens can assess the amount of hidden subsidies themselves, with the help of a calculation tool provided by ICLEI at <http://www.iclei.org/europe/ccp/arbeitsblaetter.pdf>

Results from Graz

The City of Graz in Austria (238,000 inhabitants) has had a committed environmental policy in place for some time and has achieved some prominence through the Eco-Profit scheme, which supports local companies in cost-efficient environmental management. ICLEI researched its 2003 budget for hidden subsidies for car use and found that a total of €60 million was spent through the local budget, while a total



income of €21 million was achieved. This results in a cost-recovery of nearly 35% and a subsidy per inhabitant of €169 per year.

Looking into the details of the expenditure, it can be seen that about half of the support given to car transportation relates to the construction and maintenance of streets. The second highest cost of €16.5 million in Graz was for traffic management, which includes traffic lights and signs, €3.4 million was spent on parking fee collection, €8 million on street lighting, and €4.75 million on plants that line streets. The third highest cost of €7.8 million was for the municipal car fleet which included fuel, maintenance and staff costs. The remaining €8 million can be found in the general budget of the city, which includes staff costs for planning and management. The most striking costs in the budget are the €500,000 annual rent for a car park, which is free to the public, and the €300,000 that the environment unit of the city allocates to car transport.

The income is split into three main areas. The main source of income is parking fees of €10 million, although after deducting the costs of administration and assessment, only €2 million remains. Further significant sources of income are citizens' contributions to development costs (€4.3 million) and contributions from regional and national governments to street construction (€3.7 million).

It is worth highlighting that it is not possible to identify the subsidies for car transport from the annual budget alone. Because much of the street work is carried out by the city-owned company *Wirtschaftsbetriebe* and paid for by a varying fraction of a general subsidy paid to this company, detailed information from the company's books had to be used. Furthermore it was not possible to include the expenditure on construction and the maintenance of parking space at city-owned institutions, like schools, theatres, etc. No part of the administration was aware that they are paying for this free service. Finally, the traffic police in Austria is paid for by other governmental levels and thus not included.

Graz is a city with a remarkable vision for its urban transport and the budget provides much evidence that this vision is reflected in practice. For example, only one third of the investment budget of the transport authority (excluding the *Wirtschaftsbetriebe*) is allocated to car transport, while two thirds goes into traffic restraints, tram lines, bicycle lanes etc. Furthermore, public transport receives some €19 million in subsidies for running costs, which, including the investments, adds up to €84 per inhabitant. But still, this is 50% less than the money spent on private car-use.

Results from Genève

The City of Genève in Switzerland (182.560 inhabitants) is situated in the centre of an agglomeration of nearly 1 million inhabitants, formed by the Canton de Genève (427.705 inhabitants) and the nearby Canton de Vaud and the part of France bordering the Canton de Genève. Many workers commute from the surrounding area, and consequently the traffic is quite dense in the city.

For this study, ICLEI researched the municipal budget for 2002 for obvious and hidden subsidies for car traffic and found that local subsidies reached €142 per inhabitant. In 2002, a total of €40 million was spent by the City of Genève, while a total income of €14 million was achieved, resulting in a cost-recovery of almost 36%.

In order to correctly understand the figures provided, it has to be said that in Genève, responsibilities for transport and mobility are shared between the City of Genève and the Canton, which are two separate administrations. It is the Canton that is responsible for everything connected to traffic regulation. The City of Genève is in charge of the maintenance of those streets situated on its territory. The same picture applies to the police, where responsibilities are also shared between the municipal administration and the Canton. As for public health, this is entirely the responsibility of the Canton.

Expenditures by the Canton on motorised private transport are not taken into account in the present study, as the aim was to assess subsidies paid from the municipal budget only. It has to be stressed that if the spending of the Canton had been analysed, the subsidies for motorised individual transport per inhabitant would have probably been much higher.

The biggest part of the expenditure for car transport in the City of Genève is, not surprisingly, road works (€18 million running costs), mainly spent on traffic moderation

operations and a more equitable share of road space between the different users. It has to be underlined that mobility related policy in Geneva is oriented towards the promotion of sustainable modes of transport (pedestrian, bicycles, public transport) in line with the Agenda 21 initiative of the city. Investments in street infrastructure of about € 10 million have to be added to this. Included in expenses of approximately € 6 million for traffic management, are those related to urban planning (€ 3.1 million) and street lightening (€ 2.7 million). It should also be mentioned here that Genève provides land at no cost for car parks to the companies managing these parking spaces. This amounts to € 1.8 million per year of lost income through rent of the land.

Incomes are mainly from fines (€ 7.9 million) and from parking rents and fees (€ 5.5 million). The latter includes mostly car parks and multi-storey car parks, since most public facilities either do not have parking spaces or provide them for free. The City of Genève does not receive any contributions for road infrastructure from the Canton or the Confederation, since this is mainly under the responsibility of the Canton as mentioned before.

The budget of the City does not provide a lot of detail on actual expenditure, and even the accounting system does not give any clear information on expenses related to car transport. Therefore, many figures provided are based on estimations by the officers responsible. A number of important budget items are not included, as the heads of services did not feel that they were in a position to provide appropriate figures, or to estimate the time their staff spends on private motorised transport. This is, for example, the case for the police, where only a small percentage of costs is attributed to car transport, although the real costs are probably much higher. Also, in many cases it was not possible to include expenditures on the maintenance of the car parks of public buildings such as swimming pools, theatres, and schools. The administrations of the concerned services were not aware of any expenditure in this respect.

Even if the subsidies per inhabitant are in the range of other cities assessed, it is quite probable that the expenses are underestimated for the reasons described above. Public transport receives subsidies from the City of Genève in the range of € 400.000 per year, which is considerably less than the sum dedicated to private transport. It has to be mentioned that this sum is allocated to neighbourhood bus lines only though. The main public transport lines in the city as well as in the whole Canton are subsidised by the Canton.

Results from Ferrara

The City of Ferrara situated in Northern Italy (130,461 inhabitants), is developing its local sustainability tools at a lively pace. After having taken initiatives such as extending the network of cycling lanes and convincing people to use bicycles more often, the local authority has further developed its sustainable development approach through a project. Subsidies for car transport found in Ferrara confirm the image of a sustainable city, at least compared to most other local practices. In 2002, a total of € 9.31 million was spent on motorised individual transport, with incomes of € 3.55 million. This equals a subsidy of € 5.76 million, corresponding to some € 44 per capita, and a cost recovery of around 38%.

In Ferrara, the main expenditure comes from the police department, where more than 90% of all expenses are related to car transport, amounting to € 4.27 million per year. This is closely followed by street maintenance which totals € 4.05 million per year on individual motorised transport. The third significant cost is the service for mobility and traffic that deals with the organisation of transport in the city with € 0.55 million, mainly on staff costs. All other expenses are split up between the various services and departments without any significant amounts.

The most important incomes from motorised individual transport can also be found in the police department, mainly related to fines. These amounted to € 3.10 million for the year 2002. The remaining income results from parking fees (€ 0.34 million), in this case from money that is transferred from the company managing the parking areas of the city, Ferraratua. There is also a small contribution from the Region, which however is rather insignificant.

Once again, it has to be stressed that the City budget does not provide a great deal of detail on outgoing and incoming money. In many cases, it was only possible to allocate expenses to car transport by talking to the officers in charge of the budget. Calculations had to rely to a great extent on estimations by local employees. The total amount is



most probably higher than calculated here, however, for this analysis a rather conservative approach was taken in calculating the costs.

Ferrara has certainly achieved a lot when it comes to sustainable urban transport. This is not only indicated by the figures presented here, but is also noticeable in the city itself. In contrast to most other cities, public transport, bicycles and pedestrians account for a big part of the modal share in Ferrara (43.5%). 35% of the costs of the public transport service is covered by fares. Subsidies for the public transport system come mainly from the regional authority as being the main responsible actor for transport in Italy (here the Regione Emilia-Romagna), contributing up to 65% of the total annual expenditure (capital expenditure is not considered). This amount corresponds to a so-called “minimum service”, i.e. the basic mobility needs of a local authority. All additional services are financed by the municipality. These regional financial contributions are paid from a tax (formerly a national tax on each circulating motor vehicle) that is paid on an annual basis by each owner of a motor vehicle (independently of its use) grosso modo in proportion to the power of the vehicle.

What can be done?

Confronted with the above figures, a number of transport experts defend the current situation by pointing out that cutting all the reported expenditure would have a negative effect on the urban infrastructure. Obviously, not all street maintenance can be stopped, traffic police will also be needed in future and actually even for a sustainable transport system new roads need to be built. The alternative is not to stop expenditure, but to take a pragmatic three-fold approach:

- **Better cost-coverage in transport:** It is a fair principle that the user should pay for the benefits she/he receives from a system. This does not only count for public transport, but also for private transport. At a local level there is not one single tool for this, e.g. road-pricing, but there are several, which should be used in a balanced way. These include contributions from higher levels of government (which might be financed through fuel taxes), parking fees, development levies (in newly developed commercial and residential areas) and finally road-pricing be it at single points like bridges, or for central areas. Also employees of the City or their departments should make their contribution, if using for example parking space or the authority's car fleet. The cost-recovery should be 100% or more, in order to support sustainable development. Values below 50% should be regarded as problematic.
- **Less expenditure on car transport:** Even if it can't be cut to zero, the amount spent on car transport through the public budget is not prefixed, so it can therefore be politically and technically influenced. Bigger shares of the budget should be invested in sustainable modes of transport, e.g. the budgets for cycling lanes in most cities are negligible compared to the road budgets. By cutting the width of streets built and the size of the cars purchased for the local government fleets, significant amounts can be saved.
- **Different planning/framework conditions:** Last but not least, city planning and other local decisions influence the costs of different modes of transport. For example, priority for public transport at traffic lights gives transport companies the chance to provide the same service with fewer buses. Similarly, shops, cinemas and commercial areas planned with good opportunities for access by foot, bike and public transport, need less road and parking capacity.

Imprint

This leaflet was produced in the framework of the SIPTRAM (Sustainability in the Public Urban Transport Market) project, which aims to encourage local and regional authorities across Europe to improve the environmental and quality standards in urban public transport. (For more information www.increase-public-transport.net)

Funded by the European Commission, Directorate General for the Environment, under the Community Framework for Co-operation to promote Sustainable Urban Development (COM, 2002/C 26/08). The text contained in this publication is written under the sole responsibility of ICLEI.

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2005

Assessing hidden subsidies of your local government

Going through a local budget to analyse local government expenditure on car transportation is a time consuming task. Having these figures however provides useful arguments when it comes to reorienting local priorities and strategies towards sustainability. If you would like to assess how much your local government spends on private car transportation but do not have the capacities to do so, ICLEI could assist you with this task. Please contact us at the address detailed on the left for further information.