

# »» First, more money and now, more staff – what do municipalities need in order to invest?

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Many German municipalities still have a high backlog of investment. Lack of financial resources is a major cause and undisputed. But since official promotional funds and debt capital at favourable terms are available, the question is why there is still no clear investment impulse. Municipal governments' administrative capacities to plan and implement investment projects also come into view. Their sluggish investment activity is being attributed primarily to the lack of personnel in development offices.

But the main approach to tackling the backlog of investment is to increase planning capacities. These include more staff and higher qualifications, as well as improved procedures for the planning, approval and implementation of investments. The existing administrative capacities can only be expanded through a mix of measures that will include ensuring adequate staffing levels as well as modernising workflows within municipal authorities. The digitalisation of administration through e-government and an efficient integration of cooperation and advisory services will also provide significant opportunities for increasing administrative capacities in the medium and long term.

Therefore, the currently observable investment weakness is also a wake-up call to address not just the municipalities' tasks, funding and personnel but also their inner structure and administrative processes.

According to the KfW Municipal Panel 2016, the perceived backlog of investment of the municipalities has become entrenched on a high level at EUR 136 billion.<sup>1</sup> But there are significant differences from one municipality to another. For construction measures on mainstream and vocational schools, for example, a considerable gap has been identified for investment expenditure between the federal states that ranges from an average EUR 72 to EUR 547 per student.<sup>2</sup>

Despite significant additional tax revenue and favourable financing conditions, there has been no significant investment surge yet at municipal level. Although municipal investment activity rose slightly by EUR 125 million to a total of EUR 24.7 billion in 2015, the level is not even sufficient to preserve the substance of municipal infrastructure.<sup>3</sup> For 2016 the municipal treasurers surveyed in the KfW Municipal Panel expect additional investment of EUR 2.6 billion but require more than EUR 5 billion alone to offset write-downs on municipal assets. The favourable conditions on the credit market did not succeed in stimulating municipal investment

either. Although the volume of municipal loans grew by some 7% to just under EUR 7 billion in 2015, municipalities reduced their own funds to fund their investment expenditure at the same time by 21% to less than EUR 10 billion.

## **The federal government and federal states have recognised the problem and are taking action**

In the long term, the investment weakness of many municipalities impairs the performance capacity of public infrastructure and hence the living conditions across the country. The federal and state governments are therefore working to tackle the backlog of investment with a variety of measures. One of these is the EUR 3.5 billion investment promotion fund of the federal republic, which plans to support investment in financially weak municipalities and is to be increased by several billion euros with schools in its sights. Supplementary programmes have also been implemented at state level, such as the 'Municipal investment programme 3.0' in Rhineland Palatinate.

However, it is evident that the additional programmes of the federal republic and states do not immediately lead to higher investment. Although a need for investment obviously exists, only around EUR 27 million was requested and EUR 1.8 billion earmarked under the investment promotion fund by mid-2016.<sup>4</sup> The use of funds was so sluggish at the start that the term had to be extended to 2020. Again, wide differences between the states have become apparent. Whereas Bavaria, Brandenburg and the Saarland, for example, have earmarked a large portion of the funds, Berlin, Hamburg and North Rhine Westphalia have so far used less than half the money available under the investment promotion fund.<sup>5</sup> Similar observations have been made in other promotional programmes of the federal republic, for instance in the expansion of the broadband network.<sup>6</sup>

## **Municipalities are reluctant to invest for many different reasons**

Various reasons may explain why so little money is being requested. First, it must be kept in mind that it takes some time to implement federal programmes at state level. The current federal programmes simply did not allow enough preparation time to enable direct investment impetus because many of the states did not have the specific administrative provisions until the end of the year 2016. Municipalities in Saxony, for example, could not even file applications for money from the investment promotion fund until early September 2016.<sup>7</sup> Usage of the programmes could

thus still increase substantially with some delay.

Besides, it is not necessary for every municipality to have fitting projects that could qualify for funding under the promotional programmes. The areas of support of the federal programmes, for example, are concentrated on investments focusing on infrastructure and education but only for measures that are allowed to be supported by the federal republic, such as energy-efficient refurbishment. Therefore, for roads and transport infrastructure, for which municipalities have reported the largest investment backlog, the funds can in fact be used only in connection with air pollution control and noise pollution control measures.

Even if suitable projects existed in the municipalities, there is often the problem that planning procedures need to be adapted in a key financing aspect or re-initiated completely, which is likely to be extremely time-consuming given the complexity of many procedures.<sup>8</sup>

**Decline in municipal planning staff has many reasons**

Time and again the debate surrounding weak investment performance also mentions local governments' lack of personnel.<sup>9</sup> The assumption is that municipalities' inadequate planning capacities are due to many years of continuous job cuts in local administrations. A look at the statistics shows that, against the general trend, there has indeed been a reduction in personnel in the areas of construction and housing in the past years (see Figure 1).

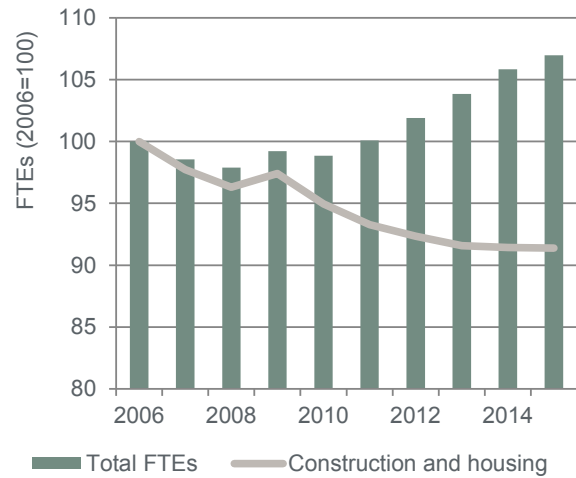
In the aggregate, municipalities have been increasing their staff levels in the past years. From 2006 to 2015, the number of full-time equivalent employees (FTEs) increased by around 80,000 to more than 1.2 million.<sup>10</sup> But the largest increase took place in the area of social services. Here, almost 79,000 new full-time jobs were created, most of them in child day-care facilities.<sup>11</sup>

By contrast, staff numbers in the area of 'construction and housing' (including spatial planning and transport), which is important for planning and implementing investments, were reduced by around 9,200 FTEs to a total of 98,000.<sup>12</sup> A large portion of these cuts were in building administration in the narrower sense (down by some 8,800 FTEs to 31,700 positions).

The situation is quite similar across the regions. Only in Bavaria and Hessen were additional full-time positions created in the development departments of municipal core administrations in the past years. This is also reflected in the staff-to-citizen ratio. While Bavarian municipalities have some 49 full-time public servants per 100,000 inhabitants in the development departments of the core administration, Saxony has 22 FTEs.

The decline in staff numbers in most states may have a variety of causes. Apart from statistical variations, organisational restructuring in local governments may also cause staff to be registered in other areas. In the years 2011,

**Figure 1: Variations in municipal staff level overall and in construction and housing**



\* Some include transport and planning.

Source: Own calculations based upon data from the Federal Statistical Office.

2008 and 2006, changes were made to the statistical capture of staff by areas of responsibility. Furthermore, there may be shifts in the functions and positions within the administration, making it difficult to capture them statistically, particularly over time.

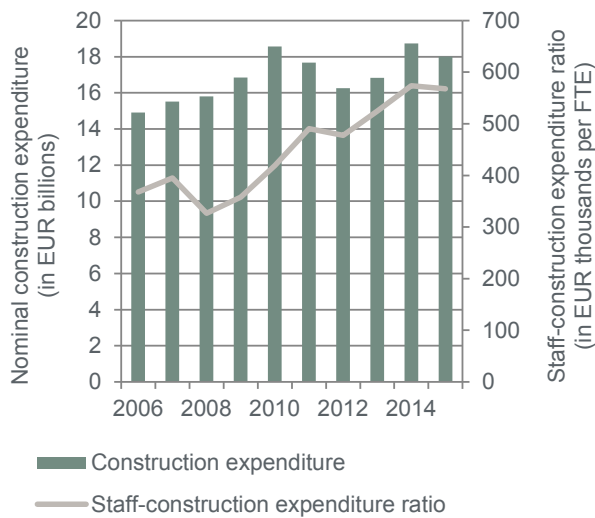
Outsourcing of functions to private or municipal enterprises (such as external planning offices) that take over planning and construction projects may lead to lower staff numbers without the planning capacities having to be reduced to the same extent. Many municipal tasks have been privatised since the 1980s.<sup>13</sup> Municipalities award contracts and ensure the completion of tasks without providing own staff to this end. Only those positions that concern themselves with awarding the contract and coordinating the project are the ones that remain within the core administration. Besides, the degree of outsourcing of investment-relevant task areas is considerable in large cities, for example, so that a statement about investment capacity can ultimately be made only on the 'municipality as a corporation' in its entirety. But this is hardly possible for lack of suitable data.<sup>14</sup>

Not least, the reduction of tasks or rationalisation of the scope of work as a result of new technologies may also explain a decline in staff numbers. The greater use of information technology in particular has led to a reduction in the workload, especially with routine tasks.<sup>15</sup>

**Less staff in administration does not necessarily mean less investment at municipal level**

However, the question is how these developments actually impact on municipalities' investment capacity. A simple comparison of federal states provides only partially conclusive findings regarding differences in investment levels based on different staff numbers (see Figure 2).

**Figure 2: Staff and construction expenditure ratios**



Source: Own calculations based upon data from the Federal Statistical Office.

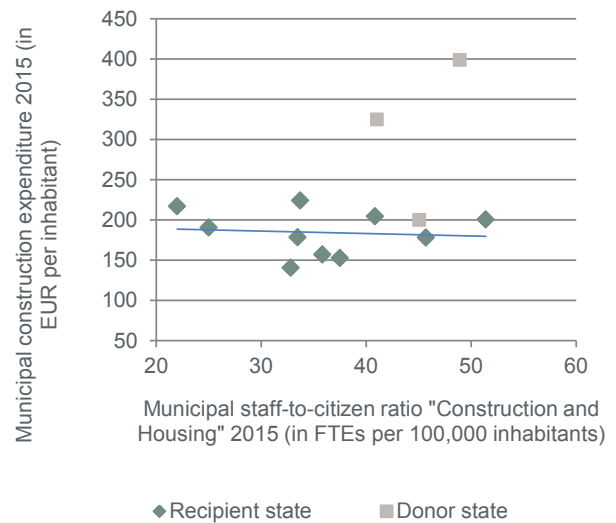
If we compare the volume of investment expenditure on construction measures with staff levels in the area of construction and housing, no clear picture emerges across municipalities in the large federal states. It is true that the municipalities in Bavaria and Baden-Württemberg have high staff levels with which they also implemented large investment volumes in 2015. But this correlation does not exist for any of the other states. Saxony, for example, has a higher level of investment (and the fourth highest of all large states) than Hessen despite having the lowest staff level, even though municipalities in Hessen have more than twice as many staff at their disposal in relative terms. Municipalities' capacities for planning and implementing investment thus depend on more factors than just their staff levels.

A look at the investment volumes of past years does not suggest a direct correlation between construction activity and staff levels either (see Figure 3). Although staff levels in the area of construction and housing have dropped in the past ten years, gross investment expenditure on construction has grown from around EUR 14.4 billion to EUR 18.0 billion during the same period. The investment volumes managed by the municipal construction administration thus grew from around EUR 368,000 per position in 2006 to around EUR 568,000 in nominal terms in 2015. In real terms, this represents an increase of nearly 20% and may indicate work intensification. However, these figures provide no clues as to whether managing a higher investment volume (= a higher workload) is being required of staff members today or whether it is the result of improved labour efficiency.

**Conclusion: Municipalities need more than just more staff to increase investment**

What is undisputed is that a lack of (human) resources can delay or even prevent important public investment. However, increasing municipal investment capacity requires more than simply asking for more staff. On the contrary: Increasing staff levels causes higher costs in the long term even though the additional capacities may be required only temporarily. So it

**Figure 3: Variation of municipal construction expenditure and staff-construction expenditure ratio**



Source: Own calculations based upon data from the Federal Statistical Office.

should also be examined how the effectiveness of planning and implementation of investment can be increased in the short term with further measures and ensured in the long term.

In addition to setting policy priorities, this also requires administrative processes to be streamlined. For example, processes could be simplified through digitalisation.<sup>16</sup> Not only can this shorten administrative procedures and thereby release additional capacities, it also eases pressure on municipal budgets. The National Council for the Review of Legal Norms estimates the savings potential from digitalising the TOP-60 administrative processes to be 34% of the current bureaucratic expenditure, meaning billions of euros.<sup>17</sup> As a large portion of these processes take place at municipal level, this is where the greatest relief is to be expected in the medium to long term.

With a view to staff levels, what is most important is that municipal employees deliver high-quality work output. So their employer must offer them continuous professional development opportunities, not least in order to remain attractive as an employer competing with the private sector.<sup>18</sup> The imminent 'waves of retirement' coupled with remuneration schemes in the public service that are not always appealing already pose considerable challenges for municipalities in competitive labour market segments.<sup>19</sup> Local governments already have difficulty filling many important positions and engineers for above-ground and below-ground construction are particularly sought after.<sup>20</sup> Also with a view to growing demands (such as project management skills and the ability to use new technologies), municipalities have little choice but to hand over these functions to fewer but more highly qualified (and possibly better paid) staff in the future.

Small municipalities in particular will have to rely on additional expertise from outside as they will not be able to maintain a corresponding number of experts on their own payrolls. So here, in particular, the focus should be on inter-

municipal partnerships and overarching services, such as the advisory agency that has been newly established by the Federal Government<sup>21</sup>, instead of having to fund these positions locally and permanently in all municipalities.

The most important prerequisite for investment, however, remains a sustainable budget that will also facilitate future investment. Hence, all stakeholders should therefore aim to expand investment capacities without narrowing their focus to staff levels. ■

<sup>1</sup> See Scheller, H., Schneider, S. et al. (2016): KfW Municipal Panel 2016. KfW Group (ed.)

<sup>2</sup> See Brand, S. and Steinbrecher, J. (2016): 'Investment backlog in schools hampers educational performance'. In: Focus on Economics No. 143 dated 24 September 2016. KfW Group (ed.)

<sup>3</sup> Multi-year average 2011–2014, expenditure on construction measures by task areas, cf. Federal Statistical Office (2016 and other years): 'Finanzen und Steuern: Vierteljährliche Kassenergebnisse des Öffentlichen Gesamthaushalts' ('Finances and taxes – quarterly cash results of the overall public budget' – our title translation, in German only) (=Fachserie 14, Reihe 2, Tabelle 2.4), 1st to 4th quarter of a year.

<sup>4</sup> See e.g. Rheinische Post (2016): 'Kommunen investieren zu langsam' ('Municipalities are too slow to invest' – our title translation, in German only), dated 9 September 2016.

<sup>5</sup> Cf. Die Welt (2016): 'Arme Länder kommen nicht an das Geld des Bundes heran' ('Poor states cannot access federal funds' – our title translation, in German only), dated 9 November 2016, No. 257, p. 1.

<sup>6</sup> See e.g. Die Zeit (2016): 'Niemand will das Geld' ('No one wants the money' – our title translation, in German only) dated 24 November 2016.

<sup>7</sup> Cf. Kilian, M., Hesse, M. und M. Redlich (2016): 'Kommunaler Investitionsbedarf im Freistaat Sachsen - Befragung 2016' ('Municipal investment requirements in the Free State of Saxony – survey 2016' – our title translation, in German only). In: KIS-Analysen, Kompetenzzentrum für kommunale Infrastruktur Sachsen (ed.).

<sup>8</sup> Cf. Association of German Cities (2015): 'Kommunales Bauwesen. Voraussetzungen für ein kostengerechtes, termintreues und effizientes Bauen in den Städten. Positionspapier des Deutschen Städtetages' ('Municipal construction. Prerequisites for reasonably costed, timely and efficient construction in cities. Position paper of the Association of German Cities' – our title translation, in German only), p. 3f.

<sup>9</sup> See e.g. Puls, T. (2016): 'Personalmangel in den Bauämtern' ('Personnel shortages in development offices' – our title translation, in German only). In: Informationen aus dem Institut der deutschen Wirtschaft Köln (iwd) dated 19 October 2016.

<sup>10</sup> The number of employees would have no informative value because of part-time employment. FTEs include both local public servants and employees recorded by the statistics on public service personnel in the core budgets, special accounts and municipal establishments under public law, including special-purpose associations. Cf. Federal Statistical Office (2015 and other years): 'Finanzen und Steuern: Personal des öffentlichen Dienstes' ('Finances and taxes – public service personnel' – our title translation, in German only) (=Fachserie 14, Reihe 6, Tabelle 5.1 und 5.2), pertinent years, own calculations.

<sup>11</sup> By creating a legal entitlement to enrolling a child in a day-care facility, municipalities have created a considerable number of additional day-care jobs in recent years, for which they have had to hire trained educators above all, cf e.g. Federal Statistical Office (2016): 'Personal im öffentlichen Dienst 2015 rückläufig – Zuwachs bei Kitas' ('Public service personnel decreased in 2015 – more hirings in child day-care' – our title translation, in German only). Press release No. 2014 from 23 June 2016.

<sup>12</sup> The area of construction and housing should be seen here as an example of municipal investment capacity, even though investment in municipalities is influenced by substantially more positions, stakeholders and factors which, however, do not lend themselves to a clear definition and evaluation.

<sup>13</sup> See e.g. Oschmiansky, F. (2010): 'Neues Steuerungsmodell und Verwaltungsmodernisierung' ('New steering model and administrative modernisation' – our title translation, in German only).

<sup>14</sup> Cf. Arnold, F., Boettcher, F., Freier, R., Geißler, R. and Holler, B. (2016): 'Kommunaler Finanzreport 2015' ('Municipal finance report 2015' – our title translation, in German only). Bertelsmann Foundation (ed.), p. 24f.

<sup>15</sup> See e.g. Pfister, M. (2000): 'Reformen in den kommunalen Verwaltungen Westdeutschlands' ('Reforms in municipal administrations of western Germany' – our title translation, in German only)

<sup>16</sup> Cf. KGSt (2011): 'Effizientes E-Government - Multiklientenstudie zu Geschäfts- und Modernisierungspotenzialen im kommunalen Produktportfolio durch E-Government-Services' ('Efficient e-government – multi-client study on business and modernisation potentials in the municipal product portfolio through e-government services' – our title translation, in German only). In: Report No. 8/2011, p. 16ff.

<sup>17</sup> Cf. Fromm, J., Welzel, C., Nentwig, L. and Weber, M. (2015): 'e-Government in Deutschland: Vom Abstieg zum Aufstieg' ('E-government in Germany: from decline to recovery' – our title translation, in German only). Kompetenzzentrum öffentliche Informationstechnologie (ed.). Study by Fraunhofer FOKUS on behalf of the National Council for the Review of Legal Norms, p. 18ff.

<sup>18</sup> See e.g. Bertelsmann Foundation 2016: Das berechenbare Problem? Die Altersstruktur der Kommunalverwaltungen ('The calculable problem? The age structure of municipal administrations' – our title translation, in German only).

<sup>19</sup> Cf. Niemann, F. and Geißler, R. (2016): 'Das berechenbare Problem? Die Altersstruktur der Kommunalverwaltungen' ('The calculable problem? The age structure of municipal administrations' – our title translation, in German only). In: Analysen und Konzepte aus dem Programm 'LebensWerte Kommune', Ausgabe 3/2016, Hrsg. Bertelsmann Stiftung, or Burkhart, H. (2014): 'Personalstrategie sichert Leistungsfähigkeit der Kommunalverwaltung – Fachkräftemangel bestimmt den Arbeitsmarkt' ('Personnel strategy secures performance capacity of municipal administration – skills shortage defines the labour market' – our title translation, in German only). In: BWGZ 11-12/2014 and Robert Bosch Foundation (ed., 2011): Demographieorientierte Personalpolitik in der öffentlichen Verwaltung. Studie in der Reihe Alter und Demographie ('Demographically oriented personnel policy in public administrations. Study in the Age and Demography Series' – our title translation, in German only).

<sup>20</sup> Cf. e.g. Aachener Zeitung: 'Den Verwaltungen gehen die Bauingenieure aus' ('Local governments are running out of construction engineers' – our title translation, in German only) dated 20 October 2016.

<sup>21</sup> Cf. German Federal Ministry of Finance (2016): 'Nachhaltige Stärkung der Investitionen in Deutschland' ('Strengthening investment in Germany on a sustainable basis' – our title translation, in German only). In: Monthly Report of the Ministry of Finance September 2016, p. 29ff.