The KfW Municipal Panel 2016 again paints a mixed picture of the financial and budgetary situation of German municipalities in 2015. Although the funding conditions of most local governments remained good and a budget surplus was generated on average across the municipalities, investment activity remained far below expectations.

The observed investment backlog rose moderately from EUR 132 billion to EUR 136 billion on the previous year. Road and transport infrastructure (EUR 35 billion) and the school and education sector (EUR 34 billion) remain the areas with the highest investment need.

The disparities between financially strong and financially weak municipalities with respect to budget balance, debt levels and investment activity have also deepened further. For example, the share of municipalities not expecting to be able to balance their budget in 2015 was higher in eastern than in western Germany (44 % as opposed to 25 %). However, municipalities with an unbalanced budget invested one third less than rural districts, cities with district status and towns belonging to a district that had a balanced budget or surplus. Moreover, these municipalities found it significantly more difficult to ensure the maintenance of existing infrastructure.

One reason for the observed backlog in the transport sector, for example, is that ongoing maintenance is a problem for many municipalities. Only one out of twenty is able to ensure comprehensive maintenance. Two thirds of the municipalities (64 %) manage this only in part, if at all. Maintenance of infrastructure is also an area where widening disparities between municipalities are becoming apparent. Two in three of the financially strong municipalities (65 %) were able to largely ensure ongoing maintenance of their infrastructure in the last five years. Of the financially weaker municipalities, however, roughly the same share (64 %) were able to do this only in part, at best.

German municipalities expect investment expenditure totalling EUR 26.7 billion for all areas in 2016, an almost 9 % increase in funds allocated.

By their own estimates, however, the increases in investment activity which the municipalities have planned for 2016 in road and transport infrastructure will soon not be sufficient to stop the continuing loss of substance. Particularly in eastern Germany, more than half the municipalities (53 %) expect the backlog to continue growing.

Municipalities are under increasing pressure to invest in the school and education sector. The main challenges here consist in the inclusion of children with intellectual and physical disabilities and the integration of immigrants. The vast majority (80 %) of the surveyed municipalities attach high or very high financial importance to these measures in the coming years. Nevertheless, municipal investments are often not undertaken, or only with a delay, partly because the division of costs between the states and the municipalities still has not been clarified. Furthermore, lack of human resources sometimes prevents municipalities from satisfactorily meeting additional investment needs because, by their own accounts, they do not have the necessary administrative capacity for the planning and implementation of projects in order to be equally active in all areas requiring investment.

Municipalities currently benefit from favourable borrowing conditions, in addition to the good economic environment and the financial relief provided by the federal and state governments. The vast majority of municipalities rate their financing conditions as good. The KfW Municipal Panel 2016 shows, however, that not all are able to make use of the low-interest phase to restructure their debt portfolio. Nearly one third of the surveyed municipal treasurers – particularly in big cities – expect less favourable borrowing conditions in the future, especially for long-term loans. That is likely also an expression of structural budgetary weakness.

The municipalities’ cumulative cash advances increased again in 2015. Around 60 % of the surveyed treasurers expect no changes to their own portfolio of cash advances for 2016. The share of municipalities that were able to reduce cash advances “somewhat” and “significantly” in 2015 was hardly unchanged, at 12 % of those surveyed.

As a result, these municipalities face an interest rate risk and growing expenditure on interest and repayment in the long term, which further reduces their scope for
fiscal manoeuvre. They are consequently in danger of running perpetually high or increasing levels of debt – which is especially the case in the highly indebted municipalities of Rhineland Palatinate, Saarland, Hesse and North Rhine Westphalia.

Municipal investments are highly sensitive to demographics and location. This means that needs vary greatly from one region and even from one location to another depending on demographic developments. Future investment planning must therefore be even less restricted than before to just a continuation of previous capacity planning and expansion standards, as high remanence costs may otherwise be the long-term consequence. Even if capacities will have to be expanded massively at some locations – especially in growing cities and regions – the technological dimension of infrastructure needs will have to be given much more consideration at municipal level as well. Ways have to be found to design infrastructure facilities (such as buildings for public use) using new, modular technologies that enable them to be used and adapted flexibly throughout their lifetime.