# Summary

## Perceived investment backlog declines

Overall the perceived investment backlog has fallen by almost 10 % to EUR 118 billion compared with the previous year. The opinions of the respondents indicate an easing to a certain extent. There is an obvious link with the slight increase in investment activity. Important: subjective "urgency assessments" and future expectations play an important role in the evaluation of the investment backlog and are likely to have developed positively compared with the previous year.

The municipalities have higher expectations than was the case in previous years, that the investment backlog can be reduced at least to some extent over the next five years — with the exception of the area of municipal roads and transport infrastructure.

There appears to be a real trend reversal in the area of childcare. In many municipalities the assessment of the investment backlog is lower compared with 2012 and the future outlook is more optimistic. The activities relating to the development of childcare, which have been standardised since 2008 as a result of the so-called “Kinderförderungsgesetz” (Child Funding Act), are clearly making an impact.

However there is no general all-clear. The share of municipalities reporting a noteworthy investment backlog in different areas of infrastructure has risen again compared with the previous year. This relates particularly to the largest fields of investment; therefore also the area of schooling (including adult education).

## Slight increase in investments again

After a sharp decline in municipal investments in 2012, the level of investment in 2013 has slightly increased again to just over EUR 25 billion.[1]

The municipalities invested approximately EUR 1 billion more in the area of roads and transport infrastructure than in the previous year. This is also reflected in a slight reduction in the perceived investment backlog. According to the opinions of the municipalities surveyed, this is certainly not enough for a real trend reversal.

## Inadequate financial framework is the greatest obstacle facing municipal road construction

Although almost two thirds of the volume invested in road construction is spent on the pavement and the roadbed, the backlog is highest in these areas as a result of the known

[1] Extrapolated from the figures from the survey.

consequences of the pot-holes that re-emerge after every winter. There are also considerable investment deficits in bridges and underpasses.

The affected municipalities — often larger cities as well as communities — have insufficient capital resources to deal appropriately with the maintenance investments. However, even more lack the scope to be able to finance these measures through loans. Inadequate staffing in the road construction offices and a lack of knowledge of alternative methods of financing (and also a lack of policy acceptance to a certain extent) are further constraints for forward-looking investments.

In the larger cities especially, noteworthy reductions in noise, poor air quality and traffic jams are few and far between, owing to the high and growing volume of traffic. Investments to improve environmental and socially responsible mobility in the municipalities are rarely achieved, according to the opinions of the municipalities surveyed.

**Financial situation — problems masked by short-term relief**

The budget surplus for all municipalities (EUR +1.7 billion, core budget) that also accrued in 2013 is a result of the comparably good economic situation, among other things. However, this masks the fact that not all municipalities benefit from this positive development. The number of communities and districts expecting a balanced budgetary outcome (not including municipal cash credits) decreased in 2013 compared with the previous year.

After the further increase in the stock of municipal cash credits in 2013, continued expansion is also expected in 2014. In the medium- and long-term, municipal budgets are facing a considerable interest rate risk — higher interest burdens with increasing interest rates.

Higher municipal cash credits and the associated increasing risks especially affect municipalities in federal states where the stock of municipal cash credits is already high.

**Further growing disparities between municipalities**

The overall financing situation has only improved slightly compared with the previous year. A further deterioration is expected for 2014. Municipalities that evaluate their current situation as inadequate (42 %) predominantly expect (73 %) an unfavourable development. Overall, the worse the current situation is, the worse the future financial perspectives will also be assessed.

The opportunities for reducing the investment backlog also depend on the overall financing situation. The widening gap between the municipalities with regard to the budget situation is continuing in terms of infrastructure and is further strengthening the centrifugal forces.

**Despite the good situation on the credit market:
debt reduction is a greater priority than future investments — whatever the cost**

In 2013, investments were financed more frequently and to a greater extent using own funds compared to the previous year. Many investments that are linked with substantial savings in the long term are nevertheless failing to materialise. The good situation on the credit market and, in particular, the favourable interest rates for investment loans do not induce to a noticeable expansion in municipal investment activity. Municipalities miss a chance for reducing the backlog at favourable interest rates and lowering the follow-on costs.

Overall, the impression is that debt reduction in many areas will be driven at the cost of future investments. In view of this situation, it appears that a critical examination of the different approaches of the federal states and their municipal supervising authorities is also necessary, in terms of promoting the municipal budget balance as well as debt reduction. In future, the municipalities' demands for support from the German central government and federal states may not be limited solely to the provision of additional funds. Rather, an agreement must be reached to determine how the provision of services for the public and thereby, in particular, the provision of municipal infrastructure can be secured economically and sustainably in the long term and in line with requirements.