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Public Private Partnership Projects in Germany

A survey of current projects at federal,
Land and municipal level

Summary

Commissioned by PPP Task Force at the Federal
Ministry of Transport, Building and Housing (BMVBW)

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The German Institute of Urban Affairs (Difu) has carried out this study on behalf of the PPP Task Force at the Federal Ministry of Transport, Building and Housing (BMVBW).

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Summary

This study is a comprehensive and up-to-date review of public private partnership (PPP) projects at federal, *Land* and municipal level. It includes information on the distribution of PPPs, project types, investments, obstacles and prospects of success. The German Institute of Urban Affairs (Difu) has carried out this study on behalf of the PPP Task Force at the Federal Ministry of Transport, Building and Housing (BMVBW).

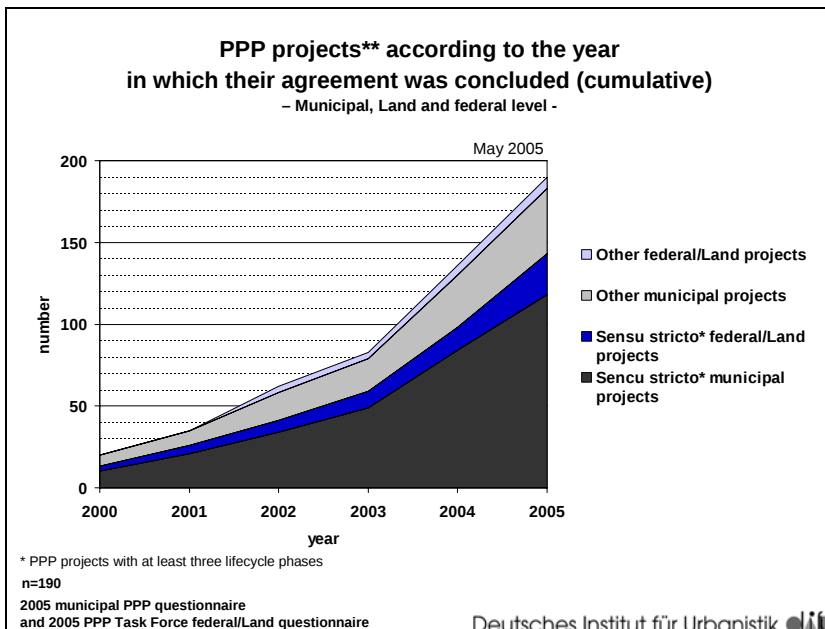
The survey concentrated exclusively on "PPP projects for related infrastructure measures". So-called institutional PPPs involving companies with both public and private partners providing long-term services (e.g. the municipal *Stadtwerke* responsible for public services) and PPP projects in the areas of supply and waste disposal were intentionally excluded from analysis. The survey's main focus was on projects which had been planned or implemented since 2000.

Since the survey targeted 1500 cities and municipalities and all rural counties (*Landkreise*), and achieved a response rate close to 70%, the findings paint a representative picture of municipal PPP projects. They also allow conclusions on trends at federal and *Land* level.

Comprehensive review

Restriction

Representative survey

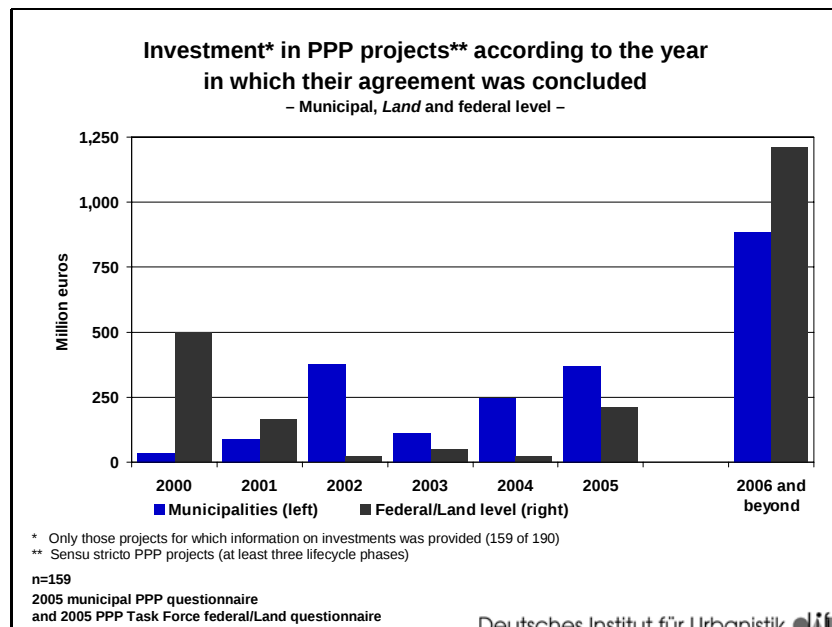


Widespread occurrence of PPPs

The survey's most important findings revealed that PPP infrastructure projects are now widespread in Germany, particularly at municipal level. The survey sketches over 200 ongoing *sensu stricto* PPP projects (those encompassing several “lifecycle” phases such as planning, construction, operation, financing and subsequent utilization), of which around 80% are at municipal level. By 2005 143 projects had been contractually agreed, and a further 57 are currently in various stages of preparation. Estimates suggest that at least 300 ongoing *sensu stricto* projects are now being implemented or planned. There are at least twice as many PPP projects in the wider sense (i.e. projects considered to be PPPs by survey participants) at federal, *Land* and municipal level.

Sharp increase since 2004

PPP projects have been around for many years, but such cooperation has only really taken off since around 2004. The number of signed contracts increased by 100% in 2004 and 2005 on the previous years. The story for investment is more complex. Steady growth has been observed in the municipalities, with the exception of a positive spurt in 2002, whereas there has been a clear upward trend at federal and Land level. Current municipal PPP projects are estimated to consume a total of three billion euros of investment for all municipalities.



Total investment of around 890 million euros for the municipalities and 1.2 billion euros at federal and Land level is anticipated during 2006 and the following years for the surveyed projects currently being planned. The actual volume of investment will be greater, since the survey did not include all existing projects.

Considerable further investment expected

Despite the growing popularity of PPP projects, their share of total public fixed investment remains low. Sensu stricto PPP investment averaged 2% of municipalities' 2000-2005 fixed investment (3% when projects in the wider sense are included). This figure is rising, and current estimates indicate a 5% share. However, if we consider those municipalities which have already embraced PPP projects, we arrive at a figure of 10% for PPP outlays as a proportion of total investment, so overall PPP spending is at a respectable level.

Total investment still comparatively low

Average project investment is respectable. Investment at federal/Land level averages 70 million euros per project. This is considerably higher than for municipal schemes, for which the figure is 16 million euros of investment for sensu stricto projects (13 million euros for all projects).

Appreciable individual investment

Expectations of PPP regarding higher efficiency and faster implementation go a long way to explaining the increase in the number of PPP projects. On the other hand, the survey did not find much evidence to suggest that PPPs are primarily seen as instruments to bridge widening gaps in public finances. The need for private capital injections plays an important role in one-third of projects. However, this does not mean that struggling municipalities have a stronger tendency to pursue the PPP-project option than their more affluent neighbours.

Efficiency and acceleration key factors

Municipalities anticipating greater efficiency as the main spin-off from PPP projects are not generally disappointed by the result. Using a realistic method of calculation which considers the interest and compound interest effects of future payment flows, average efficiency gains are 10%.

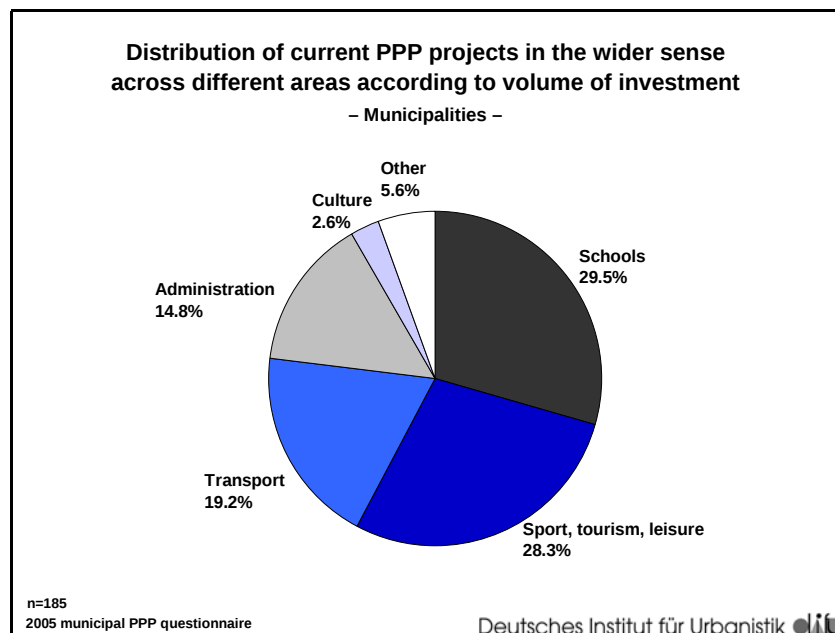
Efficiency expectations fulfilled

Operating costs require more attention

Responses to the survey illustrate that investment costs of PPP projects have thus far dominated public debate at the expense of the issue of operating costs, which has not been sufficiently addressed and deserves more attention. The figures prove that operating costs can in some cases be significantly higher than investments when calculated over the whole operating period. Since one of the guiding principles of PPP is the optimization of total costs over a project's entire lifecycle, operating costs are an important factor in the final calculation.

Clear focal areas enjoying rise in significance

PPP is already well established in the areas expected to play a key role in the future such as schools, sport, tourism, leisure and administrative offices (for municipalities) and transport, administrative buildings and the judiciary (at federal and Land level). Further important sectors include culture, childcare, urban development, the environment and supply services (municipalities) and health, public safety and e-government. Generally speaking, and irrespective of individual areas, all respondents anticipated a further, clear increase in the significance of PPP.



PPPs on the agenda in large cities

Despite these statistics, over three-quarters of municipalities are yet to implement a PPP project and have no intention of planning one. This especially rings true for smaller municipalities. Some have good reasons for this, and some simply have no need for such projects. Frequently, however, PPPs do not even get off the ground due to a lack of experience or start-up financing.

Nevertheless, PPPs are increasingly becoming fixed items on the agendas of large cities, over half of which opt for this strategy to realize projects.

A popular claim is that PPPs are often thwarted by legal technicalities. The survey has not confirmed this, although around two-thirds of projects had to contend with legal restrictions or difficulties, frequently regarding public procurement and contract law. However, such hurdles are rarely insurmountable and hence do not lead to the decision to abandon PPPs. Rather, they represent challenges to be overcome and indicate the need for legal reform in some cases.

Problems with public procurement and contract law

If the authorities deem a PPP project to be feasible and give it the green light, it usually lives up to expectations. Seven of eight projects planned at municipal level are actually implemented. Cities and municipalities are more critical than their counterparts at federal, Land and Landkreis (county) level, although the general tone remains positive. Individual projects have performed unsatisfactorily. Studies of these exceptions would help explain why they failed.

Positive overall verdicts

In conclusion, although PPPs have not yet become broadly established, they will surely play a greater role in the future in fulfilling public-service tasks. For this reason we must learn from both good and bad practice examples.

Learning from experience

