

Executive Summary

Causes of below-average public procurement during the winter months and their implications for seasonal employment

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Basel, 19.06.2002
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The rate of new orders in the public building industry is subject to strong seasonal fluctuations. The beginning of the year is characterised by a very low rate of new orders. The new order average for January during the years 1995 to 2000 was 1.4 billion DM (February 1.1 billion DM) - both below the monthly average of 3.8 billion DM. New orders reach their peak in June and September.

This is mainly caused by the rate of new orders in the field of public underground engineering - responsible for 78% of all new orders. The rate of new orders for public underground engineering is significantly lower at the beginning of the year compared to public structural engineering (January - 50%).

A differentiation by territorial authorities (federal, regional, local) does not show substantial variations for seasonal contract awards. On a local level, however, the rate of new orders in January and February is comparatively lower and the increase in March comparatively higher.

On average, 79% of all contracts not awarded during the first quarter can be attributed to non-construction related reasons. I.e., on average, the public authorities awarded 1.77 billion DM worth of contracts less than were to be expected under strictly construction-related aspects during the years 1995 to 2000.

During January and February public construction employment regularly reaches a very low level. Employment levels reach their peak in September and October. Only 38% of the average underemployment during the first quarter (worth 23.44 million hours during the years 1995 to 2000 as compared to the monthly average) can be attributed to non-construction related reasons.

The lack of public procurement at the beginning of the year is not solely responsible for the underemployment - the primary factors are weather conditions and the backlog of orders rather than the rate of new orders. Existing company-size related differences lead to varying project measures and project lengths. Smaller companies are less affected by weather conditions but more dependent on the rate of new orders at the beginning of the year.

At the beginning of the year the order backlog for public construction was, on average, seven times higher than the rate of new orders during the examined time span. Moreover, the average order backlog only saw a marginal increase from January to March. The calculated order reach during the first quarter amounted to five months.

The public budget law requirements, especially the principle of annuality and the strict adherence to requirements of the fiscal year, are the central causes for sub-average contract awards during the winter months. Budget preparations often take place too late. The conclusion of the budgetary preparations on municipal levels are delayed considerably by the subsequent legal authorisation procedure.

Third party grants can lead to further delays during the contract award process, especially if these grants are subject to the budgetary procedure of the benefactor.

Tendering procedures are per se not binding with respect to an appointed time. Consequently, they can only slow down the contract award. However, a binding juncture applies if the tendering procedures regularly start after substantial parts of the financing are secured.

Apart from construction related reasons seasonal public procurement differences between the newly-formed and the old German states are mainly due to the fact that the newly-formed states and their municipalities are more dependent on third party grants.

Against this background we propose the following reform approaches for an increased steadiness of public procurement in the building industry:

- intensive use of (redundant) double-budgets and budgetary appropriations,
- streamlining the management authorisation conferral procedure,
- increasing the authorisation for premature commencement of measures
- restricting the prohibition of commencement of measures
- simplification of the allocation procedure and
- the use of less time-consuming financing methods.