

ENERGY

STUTTGART

Germany, 560,000 inhabitants

INTERNAL CONTRACTING

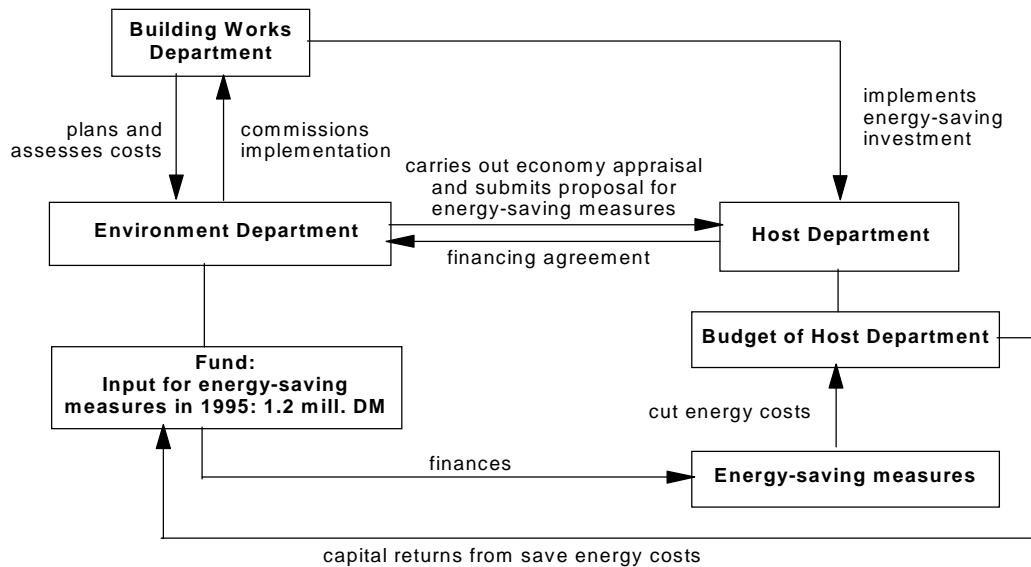
OBJECTIVES

- ◆ Speedy realization of cost-effective energy-saving projects in municipally owned buildings and facilities
- ◆ Removal of financing barriers caused by the budgetary structures of local authorities

The individual specialist departments of municipalities generally fail to carry out energy-saving measures, or only do so after a long delay. This is partly because the specialist departments have other priorities, and partly also because their current budgetary funds do not suffice for such measures. Even such energy-saving measures that are economical and would over the long term even relieve the budget of the department concerned are not implemented.

"Internal contracting", a refinement of the well-known financing instrument of contracting, can be used to overcome this barrier. Internal contracting operates exclusively with local authority budget funds, which has the advantage that no interest payments or surcharges are incurred. Financing smaller measures or only parts of measures is possible.

Financing Energy-Saving Measures



Source: Kiedaisch 1995, own additions

In the "Stuttgart Model", the Environment Department proposes measures or receives proposals from other (host) departments. The Building Works Department plans the measure and assesses the costs. The Environment Department then calculates the potential savings in energy costs and carries out an economy appraisal to determine the pay-back period. The Environment Department has established a separate budget item from which it finances the measures. The Building Works Department implements the measure in agreement with the host department. The saved energy costs are returned free of interest to the Environment Department until the funds employed have been repaid. The schedule etc. is set out in a financing agreement between the host department and the Environment Department. The measures carried out include (amongst others) the following:

- ◆ Thermal insulation of the roofs of schools and administrative buildings
- ◆ Retrofitting lighting systems in tunnels and underpasses
- ◆ Replacement of old heating boilers by modern equipment in 15 schools

Year	Investment costs in € 1,000	Budget expenditure in € 1,000	Capital recovery in € 1,000	Return of investment of the year				
				1995	1996	1997	1998	1999
1995	600	600	0					
1996	870	750	120	120				
1997	750	456	294	120	174			
1998	750	306	444	120	174	150		
1999	750	156	594	120	174	150	150	
2000	744	0	744	120	174	150	150	150

Initiator	Local authority
Implementing Agency	Environment Department of the local authority
Target Group(s)	Local authority as a whole or other departments of the authority
Costs	Total of 2.25 million Euro as set-up financing for the first five years. From then onwards, new projects are to be financed from capital returns exclusively. Sources of funds: Local authority department budgets, no external financing.
Overall Appraisal	<p><u>Successes:</u> The specialist departments hosting the measures take no risk as they do not need to provide any funds from their own budget. They receive an interest-free earmarked loan. After repayment is completed, they profit fully and for a long time from the cost reductions achieved. The funds thus saved are then available for the proper tasks of the department.</p> <p>Internal contracting creates financial incentives (for the individual departments) that make no additional burden on the overall budget of the local authority. No additional financing requirement arises for the local authority.</p>

Over the long term (from the year 2000 onwards) the fund that provides advance financing for the measures will be replenished completely by the returns from energy cost savings (Dr. Kienzlen: "an energy conservation perpetuum mobile").

Problems: The Environment Department needs to work to convince the other specialist departments. The idea needs to be communicated. The specialist departments and the local authority treasurer must be willing to cooperate.

Secondary Benefits and Transferability: Readily transferable to local authorities with municipal budget structures similar to those in Germany. Particularly suitable for larger local authorities with complex departmental structures. All energy-saving measures in local authority buildings and facilities that are cost-effective in themselves can be implemented - including those with low investment levels and lengthier payback periods.

The demonstration value of local authority action is enhanced because a relatively large number of measures can be carried out in a great variety of different areas. This has a positive effect on the public, as it serves to demonstrate that climate protection measures are not prevented by bureaucratic barriers.

Reduction in
CO₂ emissions

Varies from measure to measure.

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