Cour des comptes
Chambres régionales & territoriales des comptes

PUBLIC FINANCES AND ACCOUNT

LOCAL PUBLIC FINANCES IN 2020

Pamphlet 2

The highly unequal impact of the health crisis across different local public authorities in 2020

Thematic public report

Summary report

March 2021

DISCLAMER

This summary report is intended to facilitate the reading and use of the report from the Cour des comptes

The Cour des comptes is only accountable for the report.

Responses from the administrative bodies, organiations and authorities concerned appear after the report.

Summary

Introduction

In the initial pamphlet, published in June 2020, the Cour des Comptes analysed the position of local public authorities as at 31 December 2019. On this date, they were still enjoying a favourable financial environment, even though some structural weaknesses were already clear.

This second pamphlet examines the immediate impacts of the health crisis on local finances. During the health crisis, local public authorities worked alongside the central government to address the effects of the health crisis, which will continue to affect their financial position beyond the end of 2020. While the overall scale of the crisis has been smaller than initially anticipated, its impact has been very unequal across the various local public authorities and will increase the existing gaps between them.

The analysis produced by the Cour des Comptes comes a number of months after the report presented to the Prime Minster by MP Jean-René Cazeneuve on this same topic was published. In order to update the analysis, the financial courts directly contacted the 322 public authorities and organisations covered by the contracting system established in 2018 and sent them a questionnaire, which received 241 responses. At the same time, the Regional Chambers of Accounts analysed the budgets adopted by these public authorities and the intermunicipal authorities for cooperation between local authorities (EPCIs) in 2020. Finally, these aspects were compared to local public authorities' provisional implementation accounting data as at 30 June 2020, 31 August and 30 September successively. As a result, the points below are based on reporting or provisional data, which call for a degree of caution, as the effects of the health crisis on regional public authorities during the second half of the year are still uncertain.

While regional public authorities have enjoyed a positive financial trajectory for a number of fiscal years, this situation is set to worsen in 2020, due to both the direct impact of the health crisis and the response to the economic and social consequences of the Covid-19 epidemic by public authorities, working alongside the central government.

The rise in operational expenditure, the lost revenue from economic activity, the fall in tariff revenues and the additional costs linked to keeping services operating is likely, to various degrees, to affect their financial position in 2020 and result in the discrepancies in their situations continuing to widen.

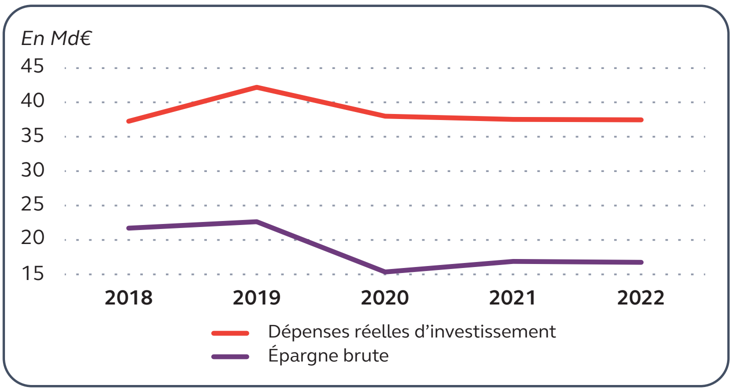
Introduction

Despite the fact that the health crisis has continued into the second half of the year, the information gathered by the Cour des Comptes shows that while all the public authorities should see a decrease in their savings, this is likely to be more severe for some public authorities in the municipal block, as well as for départements, depending on how dependent they are on transfer duties for valuable consideration (DMTO) and the potential rise in their social welfare expenditure. The rise in expenditure for investment in regions should be funded through increasing recourse to debt, which should remain sustainable in the short term.

1 The municipal block: margins affected in different ways by the crisis

The public authorities in the municipal block could experience a significant reduction in their overall savings in 2020. The survey by the Cour des Comptes on the public authorities and organisations covered by the contracting system reveals a worst case scenario of a 30% fall in gross savings.

Projected change to gross savings and actual investment expenditure, based on the Financial Courts survey (2018-2022)*



**The results of the Financial Courts survey have been extrapolated from the entire municipal block.*

Source: The Cour des Comptes, based on the Financial Court survey

The debt reduction ratio is expected to increase by 38% for communes and 46% for EPCIs, but will remain far below the alert threshold set out by the 2018-2022 public finance programming bill.

This change in savings levels is due to an interruption in the revenue dynamic as a result of the crisis, but also due to all the proactive measures aimed at ensuring that services can continue and supporting the population and the economic and social fabrics. In addition, some areas, most notably the tourist-heavy communes, are particularly exposed to the slump in specific revenues, such as the tourist tax or revenue taken from casinos operating in an area. Public authorities with significant centrality responsibilities are facing revenue losses connected with cultural, sports or recreational facilities temporarily stopping operations. The outcome of the ongoing negotiations between the public authorities on the one hand and their delegates and “satellite” structures on the other, in the area of public transport in particular, will have an impact on financial balances for 2021.

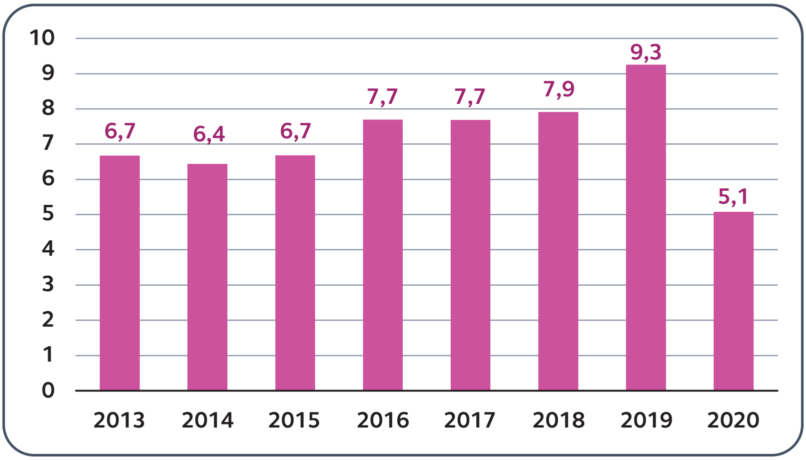
These outlooks have led the central government to propose a partial compensation mechanism covering revenue losses, accompanied by specific systems for joint local public authority associations overseeing transport systems and overseas local authorities. However, at the same time, uncertainties over future financial margins for local authorities and EPCIs are threatening their inclusion in a new investment cycle.

2 Départements: growing weaknesses

In view of both their jurisdictions and the nature of their revenues, départements are likely to suffer the repercussions of the crisis starting from the 2020 financial year. Alongside the requests made by other public authorities to roll out emergency support measures starting from the first half of the year, départements have also seen their social expenditure increase, either through individual welfare payments or through support to medico-social establishments and services under their jurisdiction. At the same time, their operating revenue is expected to fall, particularly DMTO revenue.

However, a number of factors have helped to mitigate these effects in 2020. Some revenue, in light of its payment arrangements, should only start decreasing from 2021 (such as contributions based on the value added produced (CVAE) and development tax). Other revenue has come from transfers of jurisdiction, accompanied by a central government guarantee mechanism, which should cover the majority of the revenue losses involved (lower consumer tax on energy products). In addition, départements were in a good financial position at the end of 2019, which was characterised by surplus working capital, growing savings since 2014 and low levels of debt.

Changes in départements' gross savings (2013-2020)*



**For 2020, the amount presented has come from the Financial Court survey.*

Source: The Cour des Comptes, based on the Financial Court survey

Summary of the Thmatic public report of the Cour des comptes

Département : growing weaknesses

Against this backdrop, based on the projections that they made in summer 2020, départements are expecting an overall drop in savings of 45% in 2020. In the context of départements' total savings, this would correspond to a €4.2 billion loss and would cause their overall debt reduction capacity to decrease significantly, going from 3.4 years to 6.2 years. However, this level would still be lower than the 10-year alert threshold set out in Planning Acts. As a result, while some départements could experience financial difficulties from 2020, the majority, despite being weakened, should be able to absorb the effects of the crisis without any major damage to their finances from this fiscal year.

At the same time, while départements' forecasts may seem gloomy as regards the economic picture during the first half of the year, the advances mechanism introduced in the third Supplementary Finance Act and the provisional accounting data, they are not expecting a resurgence in the health crisis that has fanned the flames of uncertainty at the end of the fiscal year.

An upturn in DMTO revenue was expected in 2021, but this scenario is being hindered by the health crisis continuing, even though départements are expected to see their social welfare expenditure increase as a result of the effects of the economic crisis and some revenue, such as CVAE, should decrease. As a result, it is looking highly unlikely that départements will be able to play a role in the recovery plan.

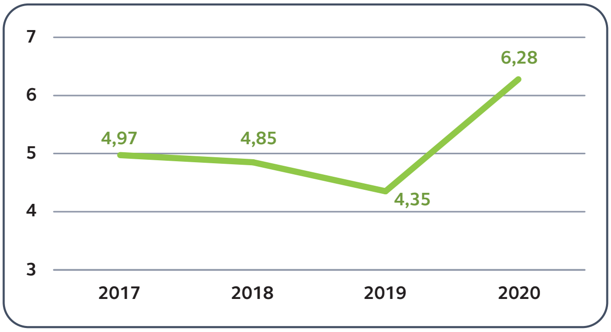
3 Regions: a sustainable increase in debt

In terms of revenue, the most substantial loss for regions could relate to tax on vehicle registration certificates, even though the trend for this income during the second half of the year seems to contradict the gloomy region forecasts. While the losses in tariff revenue from TERs and the distribution of support between regions and the SNCF are still under discussion, in 2020, moderate proportions of revenues from regions are expected to be assigned (less than 5%), as a result, in particular, of the legislative guarantees regarding some of them (VAT and domestic tax on the consumption of energy products (TICPE), not including the “Grenelle” portion).

By contrast, regions have provided a large amount of support to the hardest hit economic sectors, whether through contributions to the national welfare fund, the creation of special regional funds or various support programmes. This support has mainly been delivered in the form of expenditure which has been recorded as investments. They have also purchased protective equipment and have provided support to ensure that non-profit organisations are able to operate.

As a result, their gross savings should decrease in 2020 and their continued high levels of expenditure in investments should result in them increasingly resorting to debt..

Changes in the debt reduction capacity of consolidated regions (2017-2020)



**For 2020, the debt reduction capacity presented has come from the Financial Court survey.*
Source: The Cour des Comptes, based on Treasury Department (DGFiP) data and Cazeneuve’s hypotheses [1]

[1] A hypothesised decrease in gross savings of €1.7 billion and a hypothesised increase in debts of €1.05 billion in 2020.

Regions: a sustainable increase in debt

The method agreement signed between the central government and the regions on 30 July 2020, which neutralises the significant impact of the fall in CVAE revenues expected in 2021 for this segment of public authorities (by replacing them with a VAT amount adjusted to match the level of 2020 CVAE revenue), should provide medium-term structural reinforcement for their resources. It will enable them to step up their efforts as part of the national recovery plan, through a €20 billion commitment to investment expenditure as part of the 2021-2027 CPERs[2].

[2] Central government region contracts (CPER) are documents in which central governments and regions commit to multi-year schedules and financing for significant land development projects (such as infrastructure creation and support for future-facing sectors).