Cour des comptes

Chambres régionales & territoriales des comptes

LOCAL PUBLIC FINANCES 2019 - Part 1

The financial situation of local government authorities and their public agencies in 2018

In 2018, the central Government deficit (€69.9 billion) was partly compensated by the surplus in social security administrations (€10.8 billion) and in local general government (€2.3 billion), the latter being taken to mean all local government authorities, including groupings of municipalities that levy their own taxes and the various local administration bodies.

France's European commitments with regard to public finances bear on all public administrations, within the meaning of national accounting, composed of the State, various central administration bodies, social security administrations and local general government bodies. In order to comply with these commitments, the State has implemented various regulation mechanisms for the different categories of general government.

As concerns local government authorities, 2018 saw significant evolution of the regulation mechanism after three years of reduction in State allocations, for a cumulative total of €10 billion since 2014; the public finance programming act for 2018-2022 sets a 1.2% ceiling on increases in local authorities' operating expenditures. It is in this context that their financial situation is analysed.

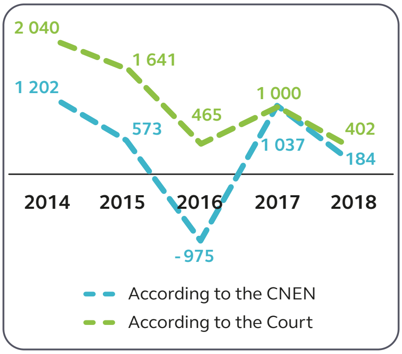
A moderate increase in State financial transfers and local taxation; a lesser impact of standards on local budgets

Leaving aside transferred taxation and changes in scope, State financial transfers to local authorities remained relatively stable in 2018. Over the same period, authorities' tax revenues recorded a moderate increase, mainly due to the dynamism of their bases. In total, financial transfers and tax revenues together increased by 2.2% in 2018, as against an average annual evolution of only 1% between 2014 and 2017.

In this positive context, local authorities succeeded in controlling their operating expenditures and so comply with the programming act's aim in this respect.

The evolution was facilitated by a reduction in the impact of "national standards" on local budgets. According to the Court's calculations, it came to around €400 million in 2018, which represents a significant decrease compared with 2017 (€1 billion).

Minimum financial impact (in €M) of State decisions on local government authorities since 2014



Source: Cour des Comptes, CNEN

Renewed improvement in local authorities' financial situations in 2018

Municipalities and their groupings mobilised their net savings surplus (up by over 10%) to increase their investments. Their outstanding debt increased slightly but their capacity for debt reduction improved, despite higher levels of investment.

The context of finalisation of transfer of the "school and intercity transport" competence to regions contributed to control of départements' operating expenditures. Their investment expenditures increased in 2018, ending eight years running of reductions. Nonetheless, their situation is still fragile in comparison with other categories of authorities, as it is very much dependent on the pace at which their social expenditures evolve.

Finally, regions have benefited from a supplementary share of the company value-added contribution (CVAE), allocated in respect of their new competences with regard to transport, as well as a share of VAT, substituting for their share of the general operating grant (DGF). Their revenues are now mainly composed of income from economic taxation. Progress made in 2018 was expressed by an improvement in regions' savings, despite less controlled operating expenditures than in other categories of authorities. Although there was little increase in their investments in 2018, their outstanding debt increased once again, partially provisioning their working capital.

Main aggregates by category of authorities

(In €Bn)	2014	2015	2016	2017	2018	Evolution 2017/2018	Average evolution 2018/2014
Groupings of Municipalities							
Gross savings	18.53	19.83	19.73	20.63	22.13	*7.3%*	*4.5%*
Real investment expenditures	36.81	32.87	32.57	35.65	37.82	*6.1%*	*0.7%*
Outstanding debt	109.45	111.98	112.94	114.40	115.07	*0.6%*	*1.3%*
Debt reduction ratio (in years)	5.91	5.65	5.72	5.55	5.20	*- 6.2%*	*- 3.1%*
Départements[1]							
Gross savings	6.57	6.71	7.81	7.85	7.85	*0.1%*	*4.6%*
Real investment expenditures	10.48	9.62	9.11	8.96	9.29	*3.7%*	*- 3.0%*
Outstanding debt	32.60	33.45	33.32	32.68	32.05	*- 1.9%*	*- 0.4%*
Debt reduction ratio (in years)	4.96	4.98	4.27	4.16	4.08	*- 2.0%*	*- 4.8%*
Regions[2]							
Gross savings	4.59	4.49	4.62	5.14	5.41	*5.4%*	*4.2%*
Real investment expenditures	8.84	9.04	8.53	9.42	9.56	*1.6%*	*2.0%*
Outstanding debt	21.34	23.33	24.81	25.56	26.26	*2.7%*	*5.3%*
Debt reduction ratio (in years)	4.65	5.19	5.37	4.98	4.85	*- 2.5%*	*1.1%*

Source: Cour des Comptes, according to DGFiP data

[1] Except the départements of Rhône, South Corsica, High Corsica, French Guiana and Martinique.

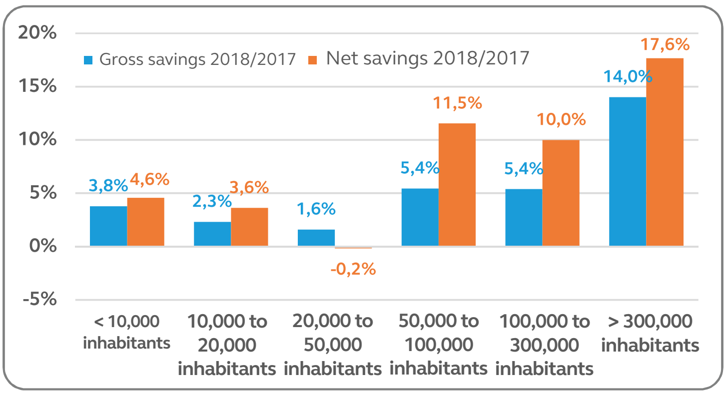
[2] Except the authorities of Corsica, French Guiana and Martinique.

Hence, considered overall, the betterment of authorities' financial situation appears more favourable to an increase in their investment expenditures than to any reduction in their funding needs or outstanding debt, which the programming act also set as one of their goals. Total outstanding debt was to the tune of €175.3 billion in 2018 for all local authorities – slightly higher than in 2017 (€174.6 billion).

Marked differences in situation among authorities in the same category

Small groupings of municipalities have not managed to control their operating expenditures as much as larger ones. Analysis by demographic stratum reveals the same distinction for municipalities, while, on average, increases in intermunicipal authorities for cooperation between local authorities' (EPCIs) operating expenditures are higher in medium-sized authorities. Consequently, the improvement in gross and net savings alike is more marked in large groupings of municipalities and less in medium-sized groupings, which also record more moderate increases in their investment expenditures.

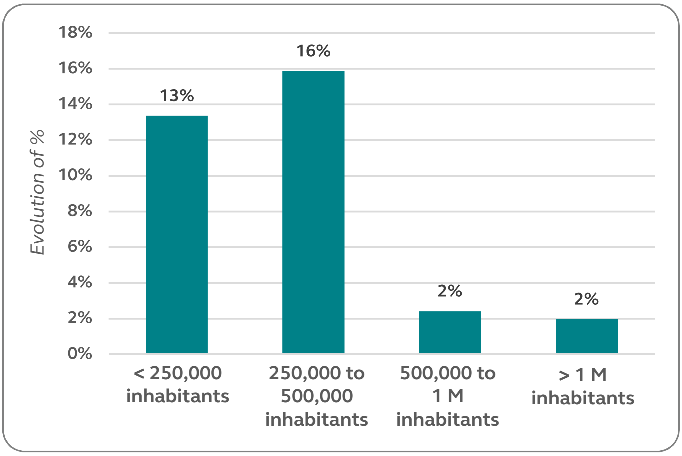
Evolution of groupings of municipalities' overall gross and net savings by population stratum (2018-2017)



Source: Cour des Comptes, according to DGFiP data

The financial situation of *départements* with between 500,000 and a million inhabitants improved, but in less marked fashion than for lower population strata. They suffer from the greatest reduction in actual operating income and the biggest increase in social expenditures. Reduction in their actual operating income did not exceed 1.8% despite the impact of a year that saw a great many transfers of competences. Such *départements* nonetheless follow the national trend regarding increases in investment expenditures and are making an effort to reduce their indebtedness.

2018 evolution of départements' gross savings by population stratum



(1) After neutralisation of Paris and Hauts-de-Seine.

Source: Cour des Comptes, according to DGFiP data

Finally, although four regions managed to reduce their outstanding debt in 2018, three regions saw their debt increase by over 10%, with one of them exceeding the alert threshold set by the public finance programming act for 2018-2022. However, six regions saw their debt-reduction capacities improve, including the one that recorded the least favourable ratio in 2017.