Chambre territoriale des comptes
Nouvelle-Calédonie

SUMMARY

FINANCIAL SITUATION OF LOCAL PUBLIC BODIES IN NEW CALEDONIA

2023

Warning

This summary is intended to facilitate the reading and use of the report of the territorial audit office. Only the report engages the territorial audit office.

The answers, if expressed, of the administrations, organizations and local bodies concerned are included after the report.

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The territorial audit office has analyzed the financial situation of New Caledonia, the provinces and cities for the year 2023. Its work, carried out between February and May 2024, does not take into account the serious public order disturbances that the territory experienced from May 13 onwards and their consequences on the private economy sector as well as on local public finances.

1 AN UNDERPERFORMING YEAR IN 2023

The resumption of economic activity, confirmed for the first half of 2023, was not sustained until the end of the year.

1.1 A resumption of economic activity

The resumption of economic activity, confirmed for the first half of 2023, was not maintained until the end of the year. The territorial audit office estimates that the territory's gross domestic product remained at its 2022 level in volume during 2023. Inflation was limited to 1.8 % in New Caledonia (compared to 4.9 % in mainland France) due to, among other things, the control of energy prices.

Employment remained at a high level and both the minimum wage and agricultural minimum wage increased by approximatively 4 % between 2022 and 2023. The number of tourists and cruise passengers returned to a pre-pandemic level and extraction, exportation and metallurgical production were up, benefiting from more favorable weather conditions. However, nickel price dropped by nearly 20 % in 2023, while energy prices remained high. These factors weighed negatively on the profitability of metallurgical plants. A “nickel plan” for the recovery of the sector was being discussed without the parties coming at an agreement by the end of 2023.

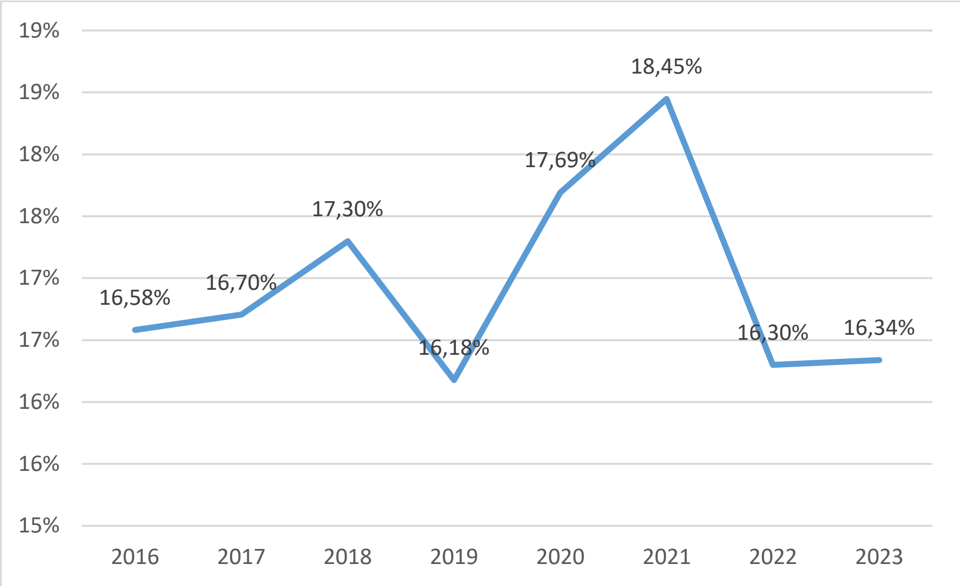
Economic indicators deteriorated during the second half of 2023, amid strong uncertainties about the future of the North plant and the institutional context. To improve public accounts, several major reforms were undertaken in the mining and energy sector, as well as intellectual property and education but other important topics such as health insurance funding were left unresolved.

1.2 Continuation of French financial transfers

The French government pursued its engagement with significant financial transfers for education and security. The total amount of these transfers increased from 164.78 billion F CFP in 2022 to 166.27 billion F CFP in 2023 (+ 1 %). An exceptional grant was made to New Caledonia for an amount of 4.4 billion F CFP to avoid any disruption in the payments from the local pension fund and for disability benefits as well as to ensure the proper execution of the public bodies' budgets until the end of 2023.

The fifth generation of development contracts ended in 2023 and a sixth generation is set to begin for the period 2024-2027 with an average annual commitment from the French state of 10.35 billion F CFP. Tax exemptions mechanisms at the national level was slightly less used, notably in terms of social housing, historically low, with only two new projects validated.

Weight of transfers from the French state including the budgetary cost of national level tax exemption in New Caledonia's gross domestic product



Source : ISEE – Direction des finances publiques locales (2023 to be confirmed)

In total, the weight of French state financial transfers including the budgetary cost of national-level tax exemption, in New Caledonia's gross domestic product returned to 2019 level, prior to the covid crisis, at 179.22 billon F CFP (16,34 % of gross domestic product).

2 PUBLIC SPENDING MAINTAINED A STRONG DYNAMIC

The year 2023 is characterized by a resumption of growth in local public spending which reached nearly 243 billion F CFP against 224 billion F CFP in 2022 (+ 8 %, a rate well above inflation).

2.1 Operating revenues and expenses are both increasing

All local bodies experienced a dynamic year, marked by increasing revenues (nearly 201 billion F CFP in 2023, + 8 % compared to 2022), particularly tax revenue, and increasing operating expenses (nearly 170 billion F CFP in 2023, + 8 % compared to 2022).

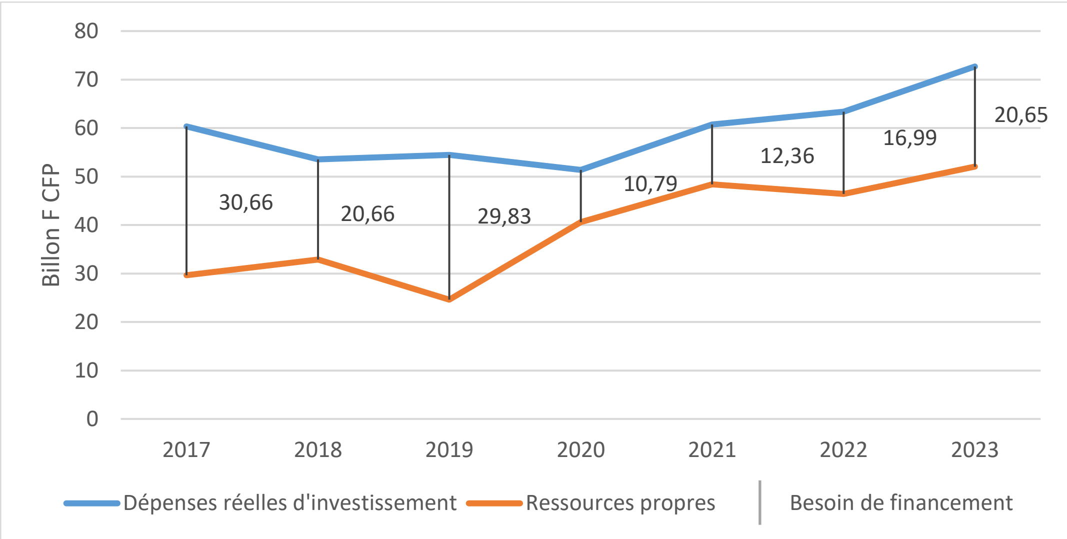
Personnel costs (73.74 billion F CFP in 2023) remained significant and financial charges (3.39 billion F CFP in 2023) increased despite the slight decline in outstanding debt (177.8 billion F CFP at the end of 2023). Conversely, purchases of goods and services (35.10 billion F CFP) and grants paid out (15.19 billion F CFP) decreased, reflecting the growing rigidity of local authorities' operating expenses.

2.2 Public investment at a record high

This favorable situation has enabled each level of local authority to improve its gross savings as well as its savings net of loan repayments. The net savings rate of the territory's local authorities rises to 9.3 % in 2023 (4.9 % for New Caledonia, 11.7 % for the provinces, 10.8 % for the cities and 2.5 % for their groupings), which is still low.

Capital expenditure (46.29 billion F CFP in 2023) is at its highest level since 2017. In 2023, New Caledonia, the provinces, municipalities and their groupings will have a financing requirement of 20.65 billion F CFP, or 1.9 % of gross domestic product, an increase of almost 22 % compared with 2022.

Financing requirement of New Caledonia, the provinces and the cities



Source : DGFiP

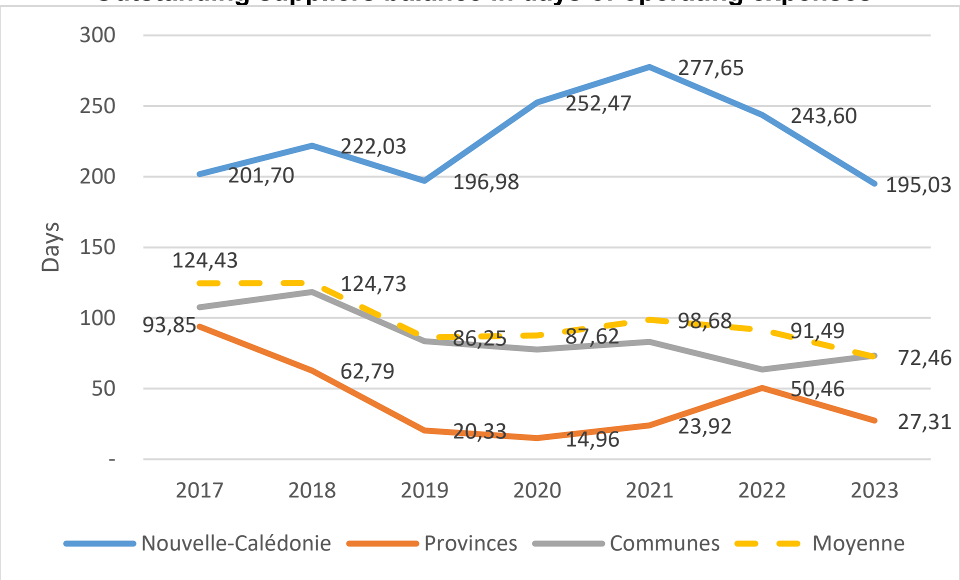
Outstanding local authority debt, mainly borne by New Caledonia, has started to decline by almost 3 % compared with 2022, reaching 173 billion F CFP, or almost 16 % of gross domestic product.

2.3 Decreasing liquidity leading to an increase in the supplier debt turnover rate and the level of social debts

The cash position of local authorities remains limited, falling to an average of 51 days of actual operating expenses at the end of 2023, compared to 79 days at the end of 2022 and only 13 days at the end of 2023 for New Caledonia. New Caledonia's cash flow problems lead to an increase in the payment delays of amounts due regarding taxes collected. This situation resulted in obliging some provinces or cities and their groupings resorting to lines of credit generating additional financial costs.

In the absence of sufficient cash, some local authorities are extending their payment terms, harming their suppliers' financial position and having a negative impact on social protection accounts.

Outstanding suppliers balance in days of operating expenses



Source : DGFiP

This is particularly the case for the Loyalty Islands Province, whose outstanding suppliers balance increased by 34 % between 2022 and 2023, reaching 0.11 billion F CFP at the end of the year, or 7 % of general expenses net of repayments in 2023, while its social debts reached 0.37 billion F CFP, or a third of the province's social expenses.

3 HEALTH AND SOCIAL SCHEMES STILL IN FINANCIAL TROUBLE DESPITE RISING TAX REVENUES

Between 2019 and 2023, tax revenues have been, on average, equal to transfers from the French state. The tax burden has increased by 0.83 points to 19.66 % in 2023, compared with 18.83 % in 2022.

3.1 An increase in tax revenues

Tax revenues collected by New Caledonia, CAFAT and the cities increased by 3.6 % between 2022 and 2023, reaching 209.2 billion F CFP in 2023 against 201.9 billion F CFP in 2022. This can be explained by the good performance of the economy in the first part of the year and the effect of some tax measures taken in 2022, in particular the increase in the Caledonian solidarity contribution rate.

3.2 Public health and social accounts, in particular the local retirement fund, require urgent action

Public health and social accounts are still deteriorating. CAFAT's income will increase by 5.3 % between 2022 and 2023 thanks to an 8.3 % rise in social security contributions and a 10.5 % increase in public contributions (from New Caledonia and from the health and social agency). However, expenses increased by almost 8 % between 2022 and 2023, including a rise of 8.6 % of benefits paid out.

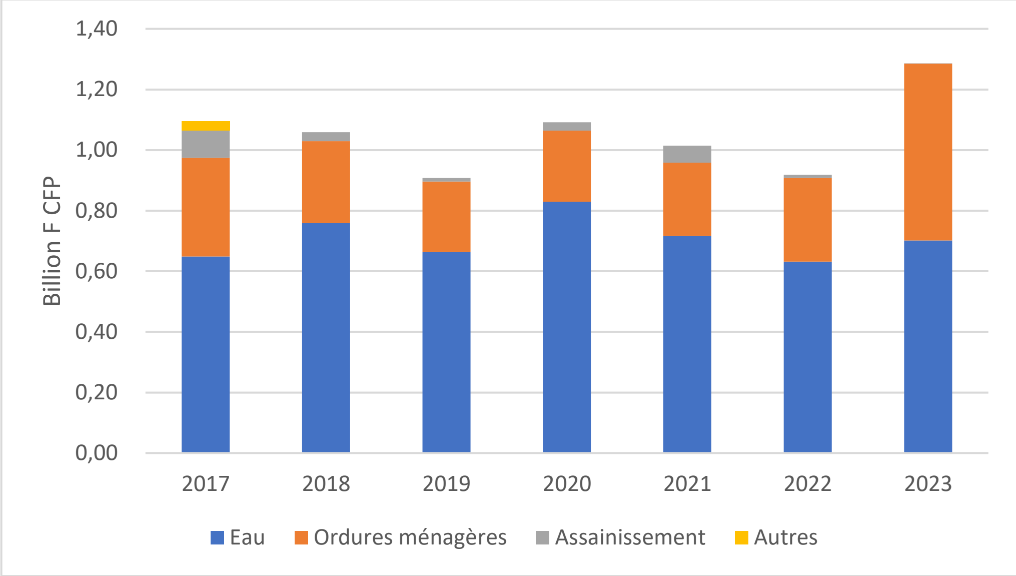
The local retirement fund, which manages the civil servants' pensions, posted its seventh consecutive operating deficit since 2017 of nearly 1 billion F CFP in 2023. Its cash position has shrunk by 64 % since 2017 and is equivalent to only 51 days of current expenditure at the end of 2023. Emergency measures were taken by congress in September 2023 to increase contribution rates and to tighten retirement conditions. At the same time, some public bodies agreed to pay in advance their contributions and the French state gave an exceptional grant to ensure the continuity of pensions payments.

Although the gross operating margin of the three local hospitals recovered slightly in 2023 (2.64 billion F CFP at year end), their gross operating margin as a percentage of operating income remained low, at 6 % in 2023. The cumulative net cash position of the three establishments is negative at the end of the year (- 1 billion F CFP) and both the territorial hospital and the North hospital benefited from cash advances totaling 2.1 billion F CFP in 2023.

3.3 Local management of water, sewage and waste services remains unsatisfactory

An analysis of municipal annex budgets shows that most of them are unable to break even without an exceptional grant from the main budget. The total amount of special grants paid by the municipal main budgets to balance the annex budgets reached 1.29 billion F CFP in 2023 compared to 0.91 billion F CFP in 2022 (+ 40 %). These balancing subsidies represented one third of current operating revenues of water service budgets.

Balancing subsidies for each type of ancillary budget



Source : territorial audit office

The level of outstanding receivables of all ancillary budgets is very high and reflects the difficulties towns are having in getting users to pay for the service delivered. This is a major challenge for industrial and commercial public services. Outstanding receivables from all ancillary budgets totalled 2.81 billion F CFP at the end of 2023, an increase of 7.2 % compared to 2022.

4 2024, A TENSE YEAR FOR PUBLIC FINANCES

From 13 May 2024, the territory experienced serious public order problems, leading to the introduction of a state of emergency followed by a curfew that was in force until December 2024. On 3 July 2024, the New Caledonian government presented indicators showing that nearly 700 businesses had been affected, 25 school buildings had been partially or totally damaged, 31 health facilities had been partially or totally damaged and the overall cost of the crisis was estimated at that date at 265.79 billion F CFP, i.e. almost a quarter of the gross domestic product, including 120.8 billion F CFP in public expenditure (69 billion F CFP in property damage, 28.1 billion F CFP in specific unemployment until 31 December 2024 and 43.5 billion F CFP in tax, customs and social security revenue losses until 31 December 2024).

This major crisis has had different repercussions on the financial situation of New Caledonia, the provinces, the cities and their groupings. The provinces' real operating expenses increased by almost 2 % between 30 June 2023 and 30 June 2024, while their real operating revenue fell by 44 %. As for the cities, their real operating costs fell by almost 10 % between 30 June 2023 and 30 June 2024, but their real operating revenue fell by 41 %. Taking into account the transfer and distribution budgets, New Caledonia's actual operating revenue fell by 56 %, this reduction being linked to the loss of tax revenue, while actual operating expenses fell by only 24 %. At the end of September 2024, New Caledonia's situation improved, with actual operating revenue at 80 % of actual operating revenue at the end of September 2023. A 10 % increase in grants received has partially offset the 23 % decrease in tax revenue.

PRESS RELEASE

The upturn in economic activity at the start of 2023 was not sustained until the end of the year. The dynamism of local public spending has increased the financing needs of local authorities against a backdrop of declining cash flow. The health and social accounts remain in a poor state despite an increase in tax revenues and contributions.

Continued financial transfers from the state, dynamic local public spending

The French state has continued its financial commitment to the territory through slightly increased financial transfers (+ 1 % between 2022 and 2023) and an exceptional subsidy of 4.4 billion F CFP granted at the end of the year. Development contracts have been renewed for an average commitment of 10.3 billion F CFP per year between 2024 and 2027. In total, financial transfers from the French state represent 16.34 % of the territory's GDP.

In 2023, local public spending has picked up, increasing by 8 % compared with 2022, a significantly higher rate than inflation, estimated at 1.7 % in 2023. The increase in operating expenditure is mainly due to New Caledonia financing the health and maternity insurance scheme managed by CAFAT. Capital expenditure in 2023 reached its highest level since 2017 at 46.3 billion F CFP.

The cash position of local authorities has shrunk by 32 % between 2022 and 2023, reaching worrying levels at the end of the year, particularly for New Caledonia (4 days of actual operating expenses taking into account all the local authority's budgets).

Health and social accounts still strained despite higher tax and social security revenues

Taxes collected by New Caledonia have increased by 4.3 % and those collected by the cities by 11 % between 2022 and 2023. The taxes paid by New Caledonia to public bodies, provinces and cities, as well as to its own budget, will increase by 13 % in 2023 compared with 2022, reaching almost 201 billion CFP. The tax burden rate was 19.66 % in 2023, an increase of 0.83 points compared with 2022.

CAFAT's income has increased by 5.3 % between 2022 and 2023 thanks to an 8.3 % increase in social security contributions and a 10.5 % increase in public contributions. CAFAT's expenses have increased by 8 % between 2022 and 2023, including an 8.6 % increase in benefits paid. The health and maternity insurance scheme (RUAMM) has again been in deficit in 2023 (nearly 2.7 billion F CFP) and the old-age pension scheme incurred a deficit of 4.5 billion F CFP.

Civil unrest has a serious impact on local public finances in 2024

The impact of the crisis linked to the unrest that began in May 2024 is already visible in the local public accounts at 30 June 2024. The repercussions vary according to the type of local authority. The cities and provinces saw their real operating revenue fall by 41 % and 44 % respectively between 30 June 2023 and 30 June 2024, while for New Caledonia, all budgets combined, the fall was 56 %. At the end of September 2024, the situation improved with revenues reaching 80 % of revenues collected in 2023 thanks to an increased state contribution. These figures will have to be updated for the whole of 2024.

Read our full report