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LOCAL GOVERNMENT FINANCES 2025

Pamphlet 1

Report on the financial situation and management of local authorities and their establishments

June 2025

Summary

The financial situation of local authorities is making a major contribution to the rise in the public deficit, despite their limited share of it

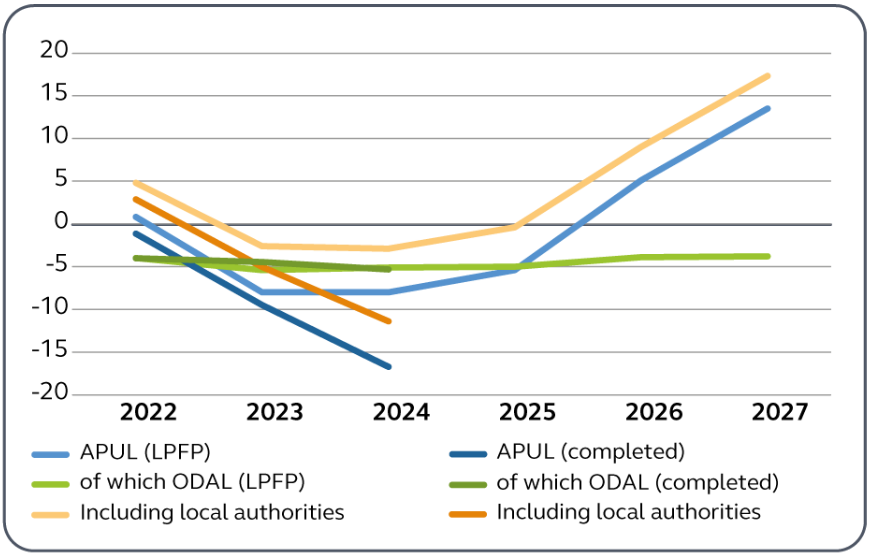
According to national accounts data published at the end of May 2025 by the National Institute of Statistics and Economic Studies (Insee), the general government borrowing requirement amounted to €169.6bn in 2024, reaching 5.8 points of GDP, compared with 5.4 in 2023 and 4.7 in 2022.

After two years of surpluses, local and regional authorities and their groupings ("the authorities") have had a borrowing requirement since 2023. That same year, this requirement amounted to €5.0bn, or 0.2 % of GDP. By 2024, it had more than doubled to €11.4bn, or 0.4 % of GDP.

Local authorities continue to account for a smaller proportion of the total general government borrowing requirement than the State and basic social security schemes.

However, as the Court anticipated[1], local authorities made a major contribution to the increase in the general government borrowing requirement in 2024, whereas the Public Finance Programming Law for 2023 and 2027 provided for them to contribute to the recovery.

Balance targets set out in the Public Finance Programming Law and balances achieved by local authorities and general government in national accounts between 2022 and 2027 (€bn)



Source: Court of Accounts, based on data from the Treasury Department, INSEE and the Public Finance Programming Law
APUL: local public administrations
ODAL: various local government bodies
LPFP: Public Finance Programming Law

[1] Court of Accounts, Local public finances : *The outlook for local government finances in 2024 and the contribution of local authorities to the recovery of public finances - Pamphlet 2, October 2024.*

Between 2022 and 2024, the deterioration in the balance of local authorities, expressed as a percentage of GDP (-0.5 percentage points of GDP), accounts for half of the deterioration in the general government balance (-1.1 percentage points of GDP). This is also the case for 2024 alone (-0.2 points out of -0.4 points of GDP). In addition, their borrowing requirement in 2024 is the highest as a percentage of GDP since 2008.

This situation was driven by the lack of any mechanism to regulate the growth of local authorities' operating expenditure (such as the “Cahors” spending agreements applied in 2018–2019, prior to the health crisis) or their revenue, even though more than half of that revenue comes from State transfers.

The increase in local authorities' borrowing requirements in 2024 reflects a growing scissor effect between the growth in their operating and investment expenditure on the one hand, and the growth in their operating revenue on the other.

Divergent trends in operating expenses and income, reducing the savings available for investment

Significant growth in product offerings

In 2024, growth in real operating revenue (€258.2bn) has slowed (+2.7 % in 2024, after +3.4 % in 2023). However, this slowdown masks an acceleration in the volume of local authority revenues (+0.7 points after -1.5 points).

Growth in operating revenue was driven by the rise in direct taxes on property ownership - property tax on built-up and undeveloped properties - or on the use of property - property tax on businesses, housing tax on second homes and on vacant dwellings (€56.0bn, or +5.3 % in total in 2024). Most of the growth in property tax is due to the revaluation of bases (cadastral rental values) for residential and industrial premises (+3.9 % after +7.1 % in 2023). It also results from new construction and tax increases by municipalities and inter-municipal bodies, to a lesser extent than in 2023.

Other tax revenues contribute to the increase in local authorities' operating revenues, in particular a national tax (special tax on insurance contracts) and taxes introduced by local authorities (household waste collection tax, mobility levy, tourist tax, tax for the management of aquatic environments and flood prevention) or adjusted by them (tax on commercial premises).

Lastly, State budget subsidies rose, with continued compensation for the reduction in industrial premises bases and a further increase in the global operating grant (DGF), albeit below the rate of inflation.

However, growth in revenues was held back by the fall in revenue from property transfer taxes (DMTO), mainly allocated to the departments, and by the stability of value added tax (VAT) allocated to the regions, departments and inter-municipal bodies. For the second year running, DMTO revenues (€13.5bn) fell due to the continuing decline in the number and, to a lesser extent, the price of property transactions. As a result, they fell by €2.2bn in 2024 (- 14.0 %) and by €6.7bn cumulatively over the last two years, i.e. by almost a third (-33.1 %) in total.

With the allocation of fractions intended to offset the abolition of the housing tax on main residences and the business value-added contribution[2] (CVAE), VAT has become the main source of operating revenue for departments and intermunicipal authorities. It even provides

[2] See Court of Accounts, communication to the Finance Committee of the National Assembly, *L'évolution de la répartition des impôts locaux entre entreprises et ménages et de la (dé)territorialisation de l'impôt, January 2025*.

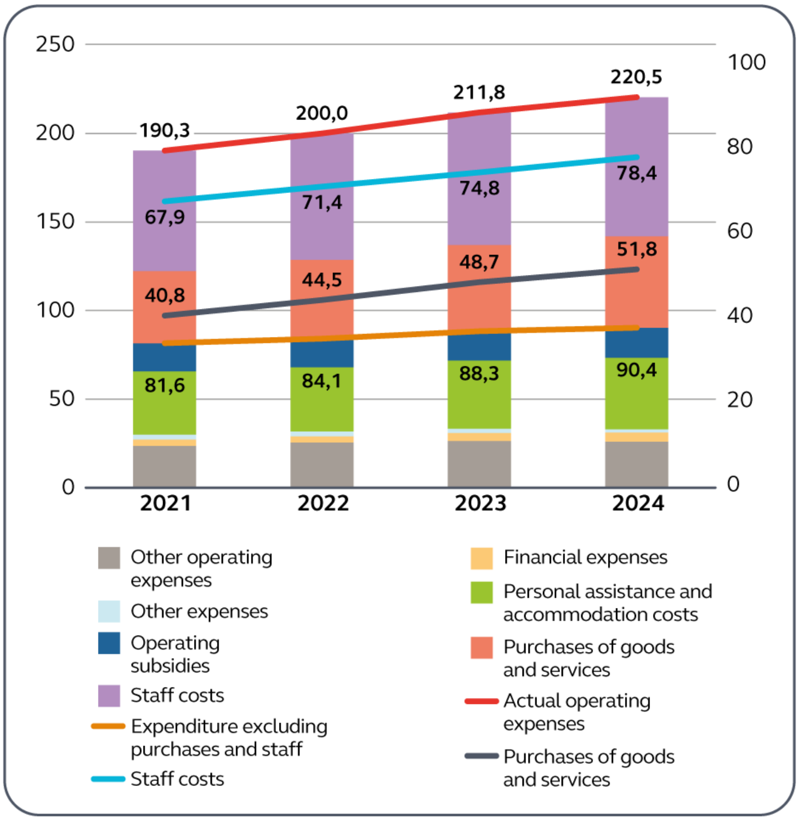
the regions with more than half of their operating revenue. In 2024, its amount (€52.1bn) was stable, due to the deterioration in the economic situation and a negative adjustment for the 2023 financial year.

On a like-for-like basis, revenues from another national tax shared with the State (excise duty on energy, €11.7bn) were also stable.

An even stronger trend in operating costs

As in 2023, the real operating expenses of local authorities (€220.5bn, excluding public syndicates) rose more strongly in 2024 (+4.1 %, after +5.9 % in 2023) than their real operating income (+2.7 %, after +3.4 %).

Real operational costs of local authorities (2021-2024, € billion)



Source: Court of Accounts, based on DGFiP data

Although lower (it reached 2.5 points in 2023), the gap between the increase in expenses and income remained high in 2024 (at 1.4 points).

Although the Public Finance Planning Law for the years 2023 to 2027 forecast a 0.5 percentage point reduction in volume, local authority operating costs rose by 2.1 percentage points in volume terms, accelerating compared with 2023 (when they had already risen by 0.8 percentage points).

Operating costs for the "municipal block" saw the sharpest increase (+4.8 %, or +2.8 points in volume terms). Those of the departments were less dynamic (+3.4 %, i.e. +1.4 points in volume, but +2.1 points in volume on a like-for-like basis). On a like-for-like basis, regional expenses rose only slightly (+0.5 %), resulting in a significant fall in volume (- 1.5 percentage points).

The increase in personnel expenses (€78.4 billion, up 4.8 %) reflects the impact of national index-linked pay rises (full-year impact of the 1.5 % index point increase and differentiated index-linked measures on 1 July 2023, allocation of five index points to all employees on 1 January 2024) and career progression based on seniority. It is also explained by decisions taken by local authorities: promotions and bonuses for civil servants, salaries for contract staff and increases in the number of contract staff and civil servants in all categories of local authority.

The growth in spending on goods and services (€51.8bn, up 6.3 %) shows the persistent effects of inflation, due in particular to discounting and price revision clauses, with the exception of energy, where spending fell after two years of strong growth.

The increase in spending on personal assistance and accommodation costs (€40.5bn, up 5.1 %), mainly borne by the departments, reflects the revaluation of social benefits and the rates charged by medico-social service providers, as well as the increase in the number of beneficiaries (child welfare, disability compensation benefits, personalised autonomy allowance).

The sharp rise in financial expenses (€5.1bn, up 13.5 %) reflects the increased use of debt by local authorities to finance their investments, despite the slight fall in interest rates.

A further fall in savings

The balance of operating income and expenditure constitutes gross savings. Together with other revenue, it is used to finance loan repayments and capital expenditure.

As a result of a greater increase in operating expenses than in operating income, local authorities' gross savings (€37.7bn in 2024) fell again (-€1.8bn, or -4.5 % compared with 2023). Over the two years 2023 and 2024, it fell by €5.3bn (-12.3 % compared to 2022).

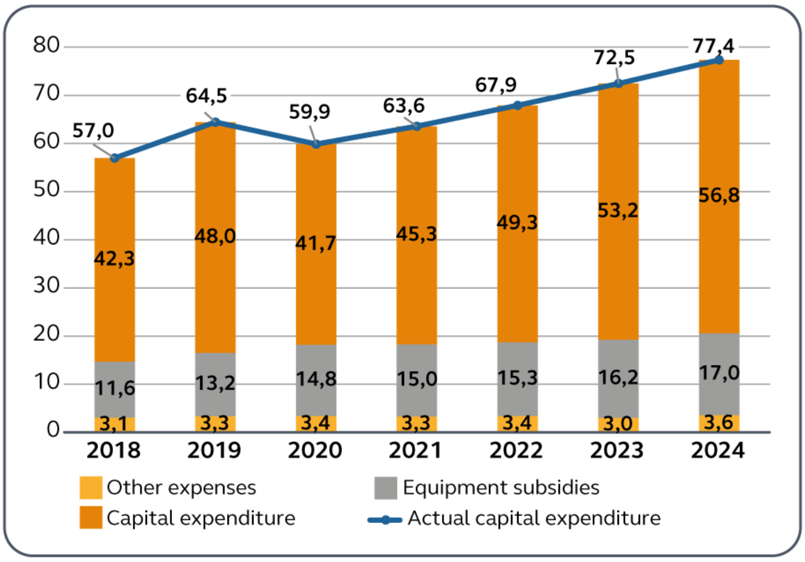
Savings net of loan repayments by local authorities (€20.7bn in 2024), which are entirely devoted to financing their investments, also contracted again over the year (-€2.0bn, or - 8.9 %). Over the two years 2023 and 2024, it fell by a total of €5.5bn (-20.8 % compared to 2022).

Despite the fall in savings, strong momentum in capital expenditure, leading to an increased borrowing requirement covered by cash reserves and borrowing

The fall in net savings was only partially offset by the increase in local authority investment revenue (VAT compensation fund and subsidies from the State and European funds, i.e. +€1.3bn or +4.6 %).

Despite this trend, real investment expenditure by local authorities (€77.4bn in 2024) continued to grow, at a rate comparable to that in 2023 (+€4.9bn, or +6.8 %). There are three main reasons for this investment dynamic: the municipal electoral cycle, which is leading project sponsors to accelerate their projects two years ahead of the next municipal elections; the investment needs associated with the ecological transition; and the growing involvement of the regions in the operation of transport networks, particularly the railways. Over the five years from 2020 to 2024, investment by the “municipal block” exceeded that of the first five years (2014-2018) of the previous municipal term by nearly a quarter in current euros and 7.2 % in constant euros.

Capital expenditure by local authorities between 2018 and 2024 (€bn)



Source: Court of Accounts, based on DGFiP data.

Due to differing trends in their revenues and capital expenditure, local authorities have relied less on self-financing for their investments: 64.0 % in 2024, compared with 76.4 % in 2022, the latter level being comparable to 2018-2019. By continuing to cover nearly two-thirds of capital expenditure, self-financing remained substantial in 2024.

To cover the part of their capital expenditure that is not self-financed (€27.9bn, i.e. +€5.7bn compared with 2023), local authorities drew once again on their working capital (€4.1bn, after €4.0bn in 2023), reducing their cash position by €5.4bn, after €4.6bn in 2023. Prior to 2023, this had been funded by reserves and loans taken out at very low interest rates.

In addition, local authorities increased their borrowing. At the end of 2024, their financial debt reached €194.5bn, an increase of €7.2bn compared with 2023 (compared with an increase of €1.8bn between 2022 and 2023).

An overall financial situation that remains healthy, but growing disparities between local authorities

Solid fundamentals for most local authorities

Although significantly higher, the borrowing requirement of local authorities, covered by cash reserves and borrowing, remains contained by the rules governing balanced budgets. Unlike the State, local authorities cannot borrow to finance operating costs, which include the interest cost of their financial debt. In addition, they must use their borrowings to finance capital expenditure only. Unlike the State, they cannot borrow to repay loans.

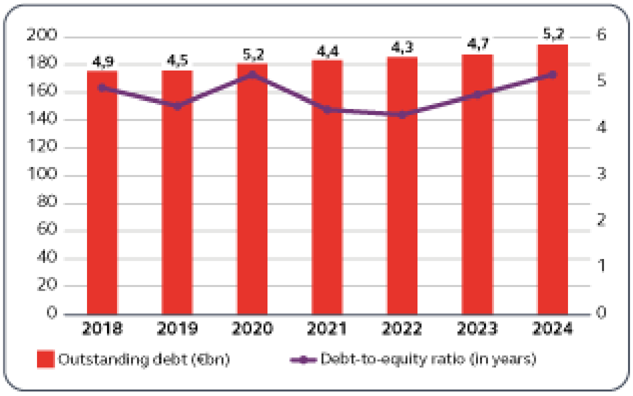
Several key indicators testify to the financial health of local authorities as a whole.

As a result, their gross savings represent 14.6 % of actual operating revenue. Although it has declined - reaching 15.7 % in 2023 and 17.7 % in 2022 - the level of gross savings is still twice as high as the 7 % alert threshold.

Although local government debt has risen (€194.5bn excluding public syndicates or €215.4bn including public syndicates at the end of 2024), it still represents a small proportion of GDP (6.6 points or 7.4 in 2024). This is offset by the fact that the cash position remains high (€49.6bn or €57.8bn at the end of 2024).

Since 2023, the debt repayment ratio, which measures the number of years of gross savings theoretically needed to fully repay financial debt, has worsened due to increasing levels of debt and a decline in savings. At the end of 2024, it will be 5.2 years, compared with 4.3 years at the end of 2022, but will still be well below the critical threshold of nine to twelve years depending on the category of local authority.

Financial debt (in €bn) and debt-to-income ratio (in years) of local authorities between 2018 and 2024

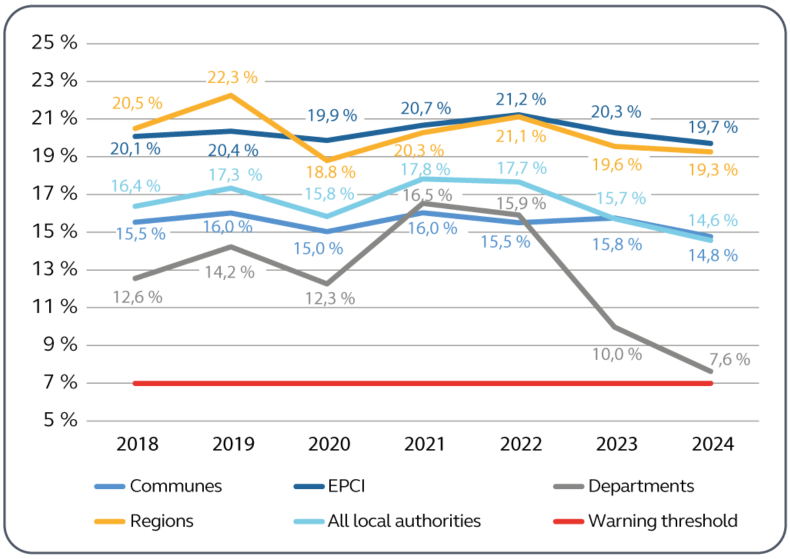


Source: Court of Accounts, based on DGFiP data

Increasing differences in situations between local authorities

However, due to the disparities in the development of their revenue baskets and, to a lesser extent, their expenditure, the respective situations of the different categories of local authorities are becoming increasingly divergent, as shown by the respective trends in the ratios of gross savings to operating income.

Gross savings as a percentage of actual operating revenue between 2018 and 2024 (as a %)



Source: Court of Accounts, based on DGFiP data

There are also divergent trends within each category of local authority.

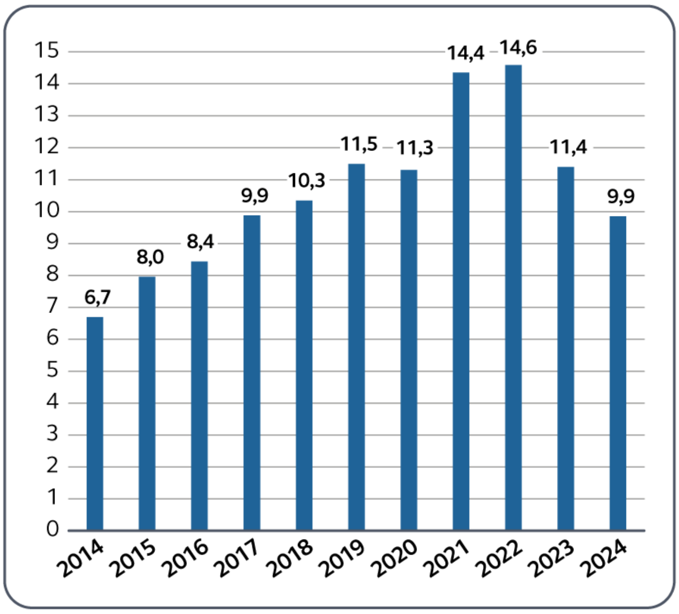
The “municipal block”, which accounts for almost 60 % of local authorities' operating costs and two-thirds of their capital expenditure, continues to enjoy a favourable financial situation. This is based on property taxes and other local taxes, the bases of which increase each year as a result of automatic or ad hoc revaluations, changes in physical bases and increases in rates or tariffs.

There are, however, a number of local situations that require attention. As a result, the number of municipalities with negative net savings rose again in 2024 after falling in previous years. Furthermore, an increasing number of local authorities are exceeding the critical threshold of twelve years' gross savings to repay their financial debts in full. Finally, the number of local authorities exposed to the risk of cash shortages has also increased.

The regions are facing a more challenging financial situation. Despite the sluggish growth in their operating costs, their situation is being eroded by the growing divergence between the growth of their capital expenditure and that of their revenue. The regions are self-financing a declining, albeit still high, proportion of their investments (68.0 % in 2024 compared with 82.7 % in 2019). By 2024, they had reduced their cash position to a low level and increased their debt. For two regions, it would take more than nine years of gross savings to repay the debt in full.

Finally, taken as a whole, the departments are in an unfavourable financial situation. This results from the scissor effect linked to the fall in DMTO revenues in 2023-2024, after several years of accelerated growth, and to the dynamics of their social spending, over which the departments have little leverage. The result is a further fall in savings, after the one in 2023. Between 2022 and 2024, net savings from loan repayments by departments were reduced by almost fourfold. As a result, the departments self-financed less than half of their capital expenditure in 2024 (43.3 % compared with 86.9 % in 2022).

DMTO collected by the departments[3] (2014-2024, €bn)



Source: Court of Accounts, based on DGFiP data

While the overall financial situation of the departments has deteriorated, only a minority - from one in eight to one in three depending on the criterion used - are in an unfavourable, if not extremely fragile, situation. In 2024, 35 departments had gross savings below the alert threshold of 7 % of operating revenue, 12 had negative net savings and 15 will need more than ten years of gross savings to repay their debts in full. On the other hand, a significant number of departments continue to enjoy a favourable financial situation.

As the Court has pointed out on several occasions, the composition of the departments' revenue is not in line with their expenditure. Even though revenue smoothing measures have alleviated the impact of the decline in DMTO revenue, it is not particularly rational for revenues that are inherently cyclical and volatile, derived from a specific segment of economic activity, to contribute to the financing of expenditures that are as fixed and variable as social spending, which constitutes a significant portion of the operating expenses of departments. In addition, the national equalisation system does not adequately correct the unequal distribution of DMTO revenue bases between departments.

Generally speaking, the dispersion of the financial situations of the departments highlights the need for an overall re-examination of their resources in the light of the funding requirements linked to the exercise of their compulsory responsibilities, particularly in the social field.

A contribution by local authorities to the recovery of public finances that remains to be realised

The imperative need to restore the public accounts and put public debt on a downward trajectory requires the participation of all public administrations, in line with their respective ability to contribute.

[3] Excluding the Rhône department, in order to maintain a constant scope over the period.

As the Court recently pointed out, the local authorities' contribution to the overall recovery of public finances is justified by the proportion of their expenditure in total public spending and by the significant transfers of national tax resources from which they benefit[4].

The Finance Act for 2025 provides for measures designed to ensure that local authorities contribute to the recovery of public finances: reduction in financial transfers from the State (freezing of VAT, significant reduction in historical allocations relating to business tax, reduction in budgetary appropriations), implementation of a multi-year revenue smoothing mechanism, increase in contributions to the pension fund for local authority employees (CNRACL).

In the second part of this report, to be published in the autumn, the Court will analyse the impact of these measures on the situation of local authorities and public finances as a whole.

This first pamphlet highlights the room for manoeuvre that most local authorities still have to contribute to the recovery of public finances without jeopardising the public services and policies they provide in accordance with the constitutional principle of free administration, and the importance of distributing this contribution fairly between and within the different categories of local authorities.

[4] Court of Accounts, Local public finances: *The outlook for local government finances in 2024 and the contribution of local authorities to the recovery of public finances - Pamphlet 2, October 2024.*