Cour des comptes

Chambres régionales & territoriales des comptes

LOCAL GOVERNMENT FINANCES 2025

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

Pamphlet 2

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Summary

In 2024, the general government deficit stood at €169.6bn according to national accounts data, or 5.8% of gross domestic product (GDP).

Local authorities and their groupings ("the authorities") certainly account for only a small proportion. However, local authorities have gone from a surplus situation in 2021 and 2022 to a financing requirement of €5.0bn in 2023, which more than doubled in 2024 to reach €11.4bn, or 0.4% of GDP.

As the *Cour des comptes* showed in the first part of its annual report on local public finances, published on 27 June 2025, the change in the balance of local authorities accounts for half of the deterioration in the general government balance between 2022 and 2024, expressed as a percentage of GDP. This deterioration in the balance of local authorities is attributable to a jaws effect between the dynamic of their operating and investment expenditure, on the one hand, and lower, albeit sustained, growth in their revenue, on the other.

Breaking with the abstention that followed the interruption, after two years, of the "Cahors contracts" aimed at controlling the operating costs of large local authorities (March 2020), the financial acts for 2025 have defined a contribution by local authorities to the recovery of public finances.

In this report, the *Cour des comptes* analyses this contribution, indicates possible changes in the balance of local authorities in 2025 on the basis of the information available to date and, following on from the proposals it made in its report on local public finances in October 2024, calls for the organisation over several years of a predictable, sustainable and fair contribution by local authorities to the recovery of public finances.

A significant contribution from local authorities to the recovery of public finances

The initial Finance Act and the Social Security Financing Act for 2025 provide for local authorities to contribute to the recovery of public finances.

Based on the information available to it, the *Cour des comptes* estimates the total amount of this contribution at €5.4bn. This is a significant amount, although it has been revised downwards compared with the Finance Bill for 2025 (when it was €8.1bn).

Local authorities will contribute through five separate channels: an increase in the rate at which local authority employers contribute to the National Pension Fund for Local Authority Employees (CNRACL, €1.4bn); the freezing at 2024 levels of VAT revenues allocated to the various categories of local authority to compensate for the abolition of local taxes (€1.2bn); an increase in reductions of levies on receipts (“adjustment variables”) for the business tax abolished in 2010 (€0.5bn); reductions in budget appropriations (€1.3bn); and the setting aside of a portion of local authority revenues by a deduction from tax revenues passing through the State's financial assistance account (€1bn).

Uncertainties affect the estimate of the reductions in appropriations for a large number of budgetary missions where all or part of the appropriations directly or indirectly benefit local authorities.

The amount of the local authorities' contribution would decrease if VAT receipts were to fall over the whole of 2025, as was the case in the first half of the year. In this case, the freeze would preserve local authorities' VAT receipts rather than reducing them in relation to their spontaneous growth.

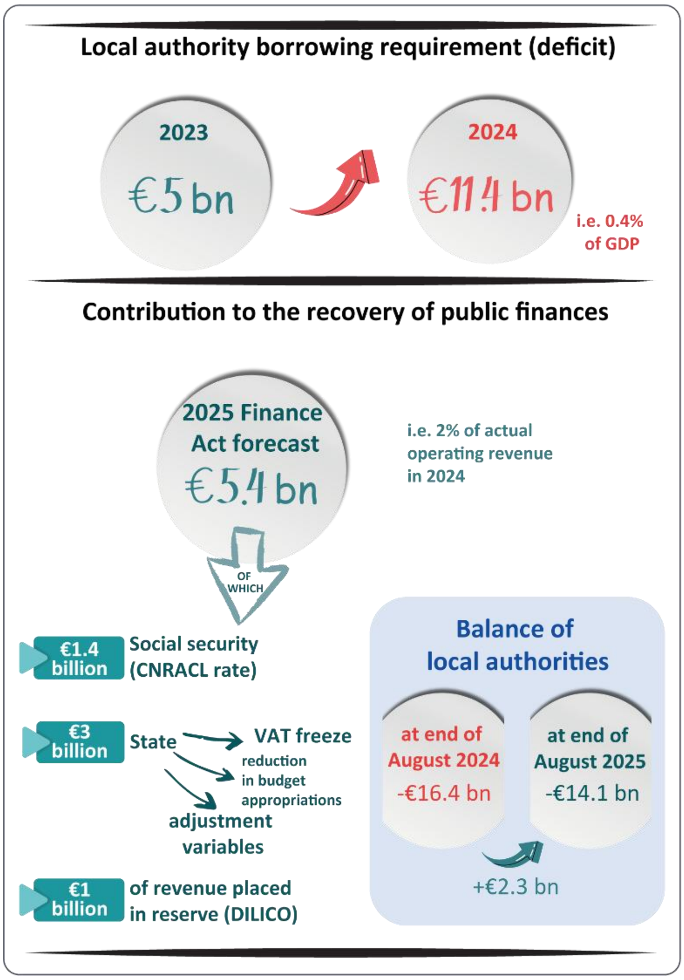
In the opposite direction, additional cancellations of budgetary appropriations could occur between now and the end of the year.

The local authorities' contribution to the recovery of public finances will improve the balances of the State and social security in 2025. It should also encourage local authorities to moderate the growth of their operating costs, given the rules for balancing their budgets and their desire to free up savings for investment.

However, the effects of the contribution on the local authorities' balances remain uncertain, as the latter also depend on changes in expenditure and revenue that are independent of the contribution. In this respect, the impact of the contribution on local authority revenues will be mitigated by changes in other financial transfers from the State, as well as by the additional tax revenues that the *départements* and *régions* will raise by exercising the new optional tax powers granted to them by the Finance Act for 2025.

From the point of view of public finances as a whole, local authorities will contribute to the recovery of public finances as long as their balance does not deteriorate or deteriorates by an amount less than their contribution.

Key figures



Source: Cour des comptes

Unevenly coherent measures

The increase in the CNRACL contribution rate, scheduled over four years until 2028, will not resolve the financial imbalance of the pension scheme for local authority and hospital civil servants managed by this body. After a brief return to equilibrium in 2028, it will return to deficit in 2029. What's more, the repayment of its debt is not organised.

As far as CNRACL contributions are concerned, local authorities nevertheless have multi-year visibility of the effort they are being asked to make.

On the other hand, the freeze on the amount of VAT paid to local authorities, the sharp increase in the reductions in the "adjustment variables" and the cuts in budgetary appropriations, in particular the "green fund", are being implemented for 2025 alone. It is unclear at this stage what action will be taken subsequently. This lack of predictability affects the programming of their policies and projects by local authorities.

The measures relating to the CNRACL, VAT and "adjustment variables" were recommended by the *Cour des comptes* its report on local public finances in October 2024, although the latter two were less far-reaching.

On the other hand, the system for cyclical smoothing of local authority tax revenues (Dilico) differs from the system for reserving local authority revenues proposed by the *Cour des comptes*, as it does from pre-existing systems for reserving revenues, mainly from transfer duties. The aim is not to smooth out the impact of the economic context on local authority revenues, but rather to make levies based on the state of public finances.

The provisions of the Finance Bill for 2025 relating to Dilico are the result of the Senate's examination of the Finance Bill. The system adopted does not take account of the contribution capacities of the different categories of local authorities. It weighs more heavily on the regions than on the municipalities, despite the better financial situation of the latter. Its equalisation effects are insufficient. Its outcome is uncertain: under the provisions of the Finance Act for 2025, it could lead to a net drain on local authority revenues if it is not renewed, or to no effect on these same revenues if it is renewed for several years for the same amount as in 2025 (after three years, the levies become equivalent to the refunds). Finally, the revenues of the *départements* and *régions* to which the levy relates do not comply with the definition given in the Finance Act for 2025. The levy on the tax revenues of these two categories of local authority therefore needs to be given an indisputable legal basis.

A deterioration in the balance of local authorities in 2025 which may not be confirmed

The April 2025 progress report on the medium-term budgetary and structural plan (MTSP) accompanying the 2025 Finance Bill forecast that the negative balance of local authorities would deteriorate by €2.7bn compared with 2024, reaching -€14.1bn in 2025.

On this assumption, the deterioration in the local authorities' balances would be half the amount of their contribution to the recovery of public finances. This would have an impact on the spending behaviour of local authorities.

The *Cour des comptes* examined the local authorities' accounting data at the end of May and again at the end of August. The data at the end of May (five months) did not show any deterioration in the budget balance of local authorities compared with the end of December 2024. By contrast, the figures for the end of August (eight months) show a change of this nature. However, the deficit balance for local authorities has improved since the end of August

2024, a year earlier. It is therefore not certain that the balance of local authorities will deteriorate in 2025 compared with 2024. On the contrary, it could stabilise or even improve as a result of buoyant revenues and the marked slowdown in spending that can be observed.

Dynamic revenues in 2025

Over the first eight months of the year, local authorities' operating and investment revenue rose by 2.7% compared with the same period in 2024 (i.e. by +1.7 percentage points in volume compared with INSEE's September inflation forecast), compared with a forecast increase of 2.4% in the progress report (i.e. by +1 percentage point in volume compared with the inflation forecast used at the time).

Local authority property tax revenues were boosted by the indexation of residential and industrial property tax bases to actual inflation and by physical changes in the tax bases of the various types of premises. Over the first eight months of the year, their growth exceeded that forecast in the progress report.

After falling by almost a third between 2022 and 2024, revenues from DMTOs will rise as a result of the recovery in the property market and the increase in the rate of their taxation by 83 *départements* to 5%, as authorised by the Finance Act for 2025; the increase in DMTOs over the first eight months of 2025 is higher than that forecast in the progress report.

The regions' revenues are increasing as a result of the increase in the rate of tax on vehicle registration certificates by nine of the eighteen regions and the exercise by some of the regions of the new powers granted to them by the Finance Act for 2025 (the possibility of only partially exempting clean vehicles from tax on vehicle registration certificates and the introduction of a regional mobility payment).

Lastly, certain automatic transfers from the State, which were underestimated in the Finance Act for 2025, will provide local authorities with dynamic revenues (VAT compensation fund and compensation for the halving of the bases of industrial premises subject to local property taxes). The *Caisse Nationale de Solidarité pour l'Autonomie's* contributions to the *départements* are also dynamic.

A sharp slowdown in spending

Over the first eight months of 2025, local authority operating and capital expenditure, taken together, increased by 1.1% compared with the same period in 2024, reflecting a slight increase in volume (+0.1 point compared with the INSEE inflation forecast for September). This is well below the increase forecast in the progress report for 2025 as a whole (+3.3%, or 1.9 percentage points in volume).

More specifically, operating expenses increased by 1.5% (or +0.5 points in volume), while capital expenditure stagnated (or -1 point in volume). For 2025 as a whole, the progress report forecast increases of 2% (+0.6 percentage points in volume) and 6.9% (+5.5 percentage points in volume) respectively.

Operating costs are slowing for the municipalities, *départements* and *régions*. At the same time, investment spending by the *départements* and *régions* is falling. These changes are linked to the deterioration in their financial situation over the last two years, compounded by their contribution to the recovery of public finances. Growth in capital expenditure by the municipalities appears to be running out of steam.

If confirmed over the last four months, these trends would reflect a sharp slowdown in spending compared with previous years. Given the trend in revenues, the balance of local authorities will improve rather than continue to deteriorate.

Local authorities' contribution to the recovery of public finances to be organised over the long term

A contribution by local authorities to the recovery of public finances is justified by their share of total public spending (17.7% in 2024), by the fact that financial transfers from the State now account for the majority of their revenue following recent local tax reforms (53.6% in total in 2024), and by the scope for greater control of their spending in three areas: personnel, the purchase of goods and services, and the pooling of services and facilities within the “municipal block”[1].

This contribution is justified, even though a large part of the deterioration in the State budget deficit is attributable to local tax reforms that are generally unwanted by local authorities (abolition of the housing tax on principal residences and of the contribution on the added value of businesses and halving of the bases of industrial premises subject to local property taxes), as the *Cour des comptes* pointed out in a recent communication to the Finance Committee of the National Assembly[2]. This is because local authorities do not have a constitutional right to compensation from the State for losses of revenue resulting from the abolition or reduction of local taxes, unlike the costs arising from transfers of powers. In addition, the national or local allocation of public revenues is the result of choices made by the legislator.

Given the serious deterioration in public finances as a whole, it is essential that local authorities continue to contribute to their recovery in 2026 and beyond.

It is no less essential to prevent undesirable effects: uncertainty for local authorities, a wait-and-see attitude when it comes to carrying out their projects, growing disparities between the situations of local authorities, leading a growing number of them to experience financial difficulties or to have to reduce or abandon essential actions.

It is therefore important that the contribution made by local authorities is predictable, transparent and fair. A number of changes are needed to achieve this objective.

Firstly, local authorities cannot be committed to a financial trajectory unless the law has set out the main terms. Parliament should therefore examine multi-year expenditure, revenue, balance and debt forecasts specific to local authorities and the means of achieving them in the context of public finance programming bills and annual finance bills.

Given that most local authorities are opposed to the State exercising direct control over changes in their expenditure, particularly operating expenditure, the State could exert pressure on local authorities by limiting the overall change in its financial transfers to them, rather than less than one-third as at present.

The standard for changes in State transfers should itself be differentiated by category of local authority (*municipalités*, *départements* and *régions*) in order to better proportion the effort required of each category to its financial situation and its ability to contribute. In this respect, the inflexibility of social spending by the *départements* would suggest setting a standard for changes in transfers from the State that is more favourable than those for the municipalities or the regions.

Within each category of local authority, the effort should be distributed according to objective criteria of resources and burdens, making it possible to characterise the relative level of wealth of the local authorities taken individually so as to enable those that are disadvantaged or less favoured to assume the cumulative increase in the amount of the contribution to the recovery of public finances over several years.

[1] *Cour des comptes*, *Local Public Finances*, pamphlet 2, October 2024.

With the same objective in mind, it would be advisable to increase the volume of financial equalisation between local authorities, but also to make this equalisation more redistributive. In addition, it is important to stop allocating resources between local authorities on the basis of historical data, in favour of an allocation based entirely on contemporary data on resources and costs per inhabitant. This issue of fairness and the sustainability of local finances concerns all the revenues that compensate for the recent or earlier abolition of local taxes: all VAT revenues and the non-equalising allocations of the global operating grant (DGF), which still accounts for the majority.

Summary of recommendations

1. Include forecasts of expenditure, revenue, balances and debt specific to local authorities and their groupings in forthcoming public finance programming bills, medium-term budgetary and structural plans and annual progress reports on the latter *(ministries responsible for the budget and local authorities*).
2. Include in the report on the state of local public finances appended to the Finance Bills for 2026 and subsequent years a description of the expenditure, revenue, balance and debt trajectory of local authorities and their groupings for the coming year and subsequent years, as well as the resources planned to ensure that this is achieved *(ministries responsible for the budget and local authorities*).
3. From 2026, make local authorities contribute to the recovery of public finances by setting a standard for changes in the total amount of financial transfers from the State to them, including compensation for tax abolition, modulating this change by category of local authority according to their financial situation and applying it to each local authority individually according to the relative level of its wealth *(ministries responsible for the budget and local authorities*).
4. Distribute the VAT resources transferred by the State to local authorities and their groupings to compensate for the abolition of local taxes on the basis of the relative per capita wealth of these entities, assessed with regard to a small number of resource and expense criteria *(reiterated recommendation, ministries responsible for the budget and local authorities*).
5. Allocate the total operating subsidy fully between municipalities, *inter-municipalities* and *départements* on the basis of contemporary data on population, resources and costs *(reiterated recommendation, ministries responsible for the budget and local authorities*).