



PRESS RELEASE

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PUBLIC FINANCES AND ACCOUNTS

LOCAL GOVERNMENT FINANCES

The *Cour des comptes* hereby issues its public report, a work of collaboration with the regional audit courts, on the financial situation and management of local authorities and their public institutions. Local governments (APUL - *administration publique locale*) represent 20% of expenditure and 9% of public debt. They are concerned by France's undertakings to comply with European commitments on the rebalancing of its public accounts.

The necessary contribution of local authorities to the rebalancing of public accounts justifies new governance of local public finances

In 2014, the APUL contributed to the rebalancing of the public accounts through the reduction of their funding requirements by 0.2 point of GDP, due notably to a 9.2% drop in investment expenditure by local authorities, which is always sensitive in municipalities and their groupings and this was accentuated by an electoral cycle effect.

Nevertheless, 2014 was notable for a new worsening of the financial situation of local authorities. For the third consecutive year, their gross savings diminished. Their indebtedness grew again, despite the reduction in their funding requirements.

This finding confirms the necessity of improving the governance of local public finances by establishing institutional dialogue between the State and local authorities, as well as by the annual voting of a Finance Act for local authorities.

The worsening of the local public finances in 2014 comes from a pincer effect between expenditure and operating income

2014 was notable for the first drop (€-1.5bn) in the general operating grant (DGF - *dotation globale de fonctionnement*) paid by the State to local authorities. This drop was, however, lessened for the municipalities and more than compensated, for the departments and regions, by the increase in other financial transfers.

The worsening of the financial situation of the local authorities comes primarily from the fact that their operating expenditure is increasing more quickly than their operating income. Although efforts to improve administration have been found, they could not compensate for the sharp growth in remuneration expenses, particularly in the municipalities and inter-municipal groupings. This pincer effect has been worsened by the slowdown in tax income at municipal level and the drop in that from the regions, as well as the increase, still very steady, in the social expenditure of departments.

With the exception of departments, the gross savings of local authorities have reduced in a proportion greater than that of the drop in the general operating grant.

Although of limited extent in 2014, the drop in the general operating grant began to apply new financial restrictions on local management, in different ways depending on the categories of local authorities and within each category. Faced with the programmed drop in this grant of €10.75bn between 2015 and 2017, the local authorities have very variable abilities to adapt according to the structure of their expenditure and their income, or their possible financial weakness. The application of a uniform drop in the general operating



grant, proportionate to the incomes of local authorities, therefore does not appear appropriate. It should be implemented according to a more explicit equalisation approach, according to indicators that represent levels of wealth and expenditure by local authorities.

The significant impact of standards makes it necessary to improve the evaluation of their cost

The impact of decisions taken at the national level is sometimes put forward to explain the increase in the expenditure of local authorities. In four areas studied by the Court, the budgetary impact of standards reaches significant amounts on the scale of local finances, even though it is not the primary factor explaining the increase in operating expenses. Thus, the Court estimates that between 30% and 50%, depending on the municipalities, of the cost of reforming school timetables remained paid by them. Concerning payroll expenditure, the Court estimates at 42% in 2014 (representing about €1bn) the share of increases due to national measures. This share leaves margin for local authorities to better control the growth of their payroll expenditure.

The Court also noticed that the system for evaluating the cost of standards could be improved because it is complex, not always reliable and insufficiently transparent. The Court makes recommendations to improve and increase the scope of opinions given by the national committee for the evaluation of standards.

Improved control of operating expenditure and increased selectivity of investments are essential

The local authorities provide 58% of the public investment for which the evolution is an issue both for macroeconomic development and local development. The prospects for evolution in 2015 of the income from local authorities are marked by the increased drop in the general operating grant (€-3.4m), leading to the first reduction in financial transfers from the State (€-2bn), as well as by the moderate increase in direct taxation. Consequently, to avoid a new worsening in their gross savings, the local authorities must limit the growth in their operating expenditure in 2015 to 0.7% (against 2.2% in 2014).

The drop in local investment will probably have to accompany the drop in the general operating grant until 2017. Margins for manoeuvre are available to local authorities to limit the extent of this. Firstly, they must undertake a more systematic search for operational savings, notably by stabilising the evolution of their payroll expenditure (more rigorous management of staff, compliance with statutory working hours and the fight against absenteeism). Secondly, selection of local investments must be improved, by generalising their long-term programming and introducing assessment of their socio-economic utility.

Conclusion and recommendations

One of the challenges of the greater involvement of local authorities in the rebalancing of the public accounts involves the ability of the State to simultaneously carry out the programmed drop in its financial assistance and several reforms, such as the territorial reform and reform of the general operating grant, which will affect the budgetary balance of local authorities.

Also, the quality of local accounting and financial information must be significantly improved.


The Court makes 14 recommendations, for the attention of the State and the local authorities.

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