

Local government finance

For the first time, the Court presents a special report on local government finance. In doing so, the Court adds to its annual reports on the State (central government) and Social Security finances a new one on the third component of the whole public finance, which is envisaged to be published on an annual basis.

This publication is the result of joint efforts by the Court and the Regional Chambers of Accounts, thus combining a cross-cutting approach and a regional approach. It has been cleared with the relevant central and local government administrations and has benefited from discussions held with the leading associations of local elected representatives.

1) The local governments contribute to the overall balance of the whole public finances

Taken as a whole, the financial situation of all local governments is sound: in 2012, their deficit (€3.1 bn, i.e. 0.15 GDP point) remained low and local debt accounted for 9.5% of public debt.

However, a faster increase in expenditure compared to that in revenue, may impair this situation. Given the weight of financial transfers from the central government (€75 bn excluding transferred taxation) and the effect of transferred taxation on its fiscal balance, local finance has become part of the whole public finance. In the future, neither revenue nor debt will be able to keep pace with sharply growing local expenditure. Consequently, it will be incumbent on local governments to control their expenditure in order to help restore the overall fiscal balance and meet France's European commitments.

2) The local governments are showing increasingly heterogeneous fiscal situations.

The respective fiscal situations of the three tiers of local governments prove to be increasingly heterogeneous. The local tax reform consequent upon the abolition of the business tax has sharpened such differences. Furthermore, it has not produced the same effects on each of the three tiers. French communes benefit from more dynamic fiscal resources than the départements and the regions. This development calls for enhanced equalization between local governments within the same tier.

The Court estimates that the decrease in block grants from the central government, foreseen in the Fiscal Bill for 2014 (-€1.5 bn) and likely to be extended to 2015 (an additional -€1.5 bn), should be modulated taking into account the actual trend in own resources revenue and expense of the three tiers of local governments. It also considers that, within a given tier, the forthcoming decrease in block grants should be financed through an equalization mechanism.

3) A framework for fiscal governance including local governments has still to be established.

The current state of the overall public finance and the interdependence of central and local government finance, call for an effective governance of the latter to be set up:

- particularly under the current situation, the enhancement of the European and national framework for the supervision of the public finances justifies that more restrictive rules concerning the

- expected trend in revenue and expenditure of the local governments be included in a law;
- a national body could serve as the permanent framework for their involvement in the whole public spending control mechanism, both upstream of any multi-annual public finance and planning act (on which they would issue an opinion on their nature and scope) and downstream (during the implementation phase).

4) A better control on operating expenditure is possible

Resources under constraint (both in terms of tax revenue and transfers from central government) may allow for an equivalent quality of public service, provided that consideration be given to the following:

Staff remuneration accounted for about 35% of the operating expenditure incurred by local governments and local authorities in 2012 (over 50% for communes). Part of the increase in the local governments' wage bill (40% of the increase in 2012) can be attributed to legislative and regulatory measures taken at the national level.

Nevertheless, decisions specific to local governments have heavily contributed to the increase in their payroll costs, which, conversely, could be kept under control in different ways. Staffing level is a key factor in the development of the wage bill, but there are also many other decisions that influence this expenditure. Room for significant changes exists in terms of working hours, wage supplement policy or the prevention of a number of sick leaves. Organisational optimization may also be another source of savings, due to an uneven distribution of civil servants across the territory.

Pooling of services is a form of streamlining liable to generate savings. Efforts under way to pool resources between local governments have not yet produced all their potential results. Continuing these efforts needs to be a national and local priority, notably at the commune level.

Other sources of savings include: streamlining fixed assets management (public property) and maintenance expenditure (€3 bn in 2012); defining a more efficient public procurement policy in the area of recurring management expenses (€29.7 bn); better coordination and streamlining of economic interventions by different tiers of local governments (€5 bn).

5) The quality of local financial data must be significantly improved

The quality of financial data and improvement of internal control processes are critical to the management of local governments which is currently becoming increasingly constrained.

The Court is notably of the opinion that the financial statements of local governments and local authorities must evolve in order to better meet standards of quality in this area.

The Court has issued 23 recommendations, including:

Regarding the overall current trend in public finance:

- the rules pertaining to the supervision of local finances should be clarified and laid down in a local spending governance pact defined by a coordinating body involving the local governments;
- the decrease in block grants in 2015 should be implemented in accordance with the principle of equalization.

With regard to the quality of financial and accounting data:

- the project of merging the actual double set of financial statements into a single one should start without further ado, and the largest local governments, should set up an accounting internal control system that meets the highest standards.

With regard to the allocation of resources:

- the allocation of tax resources between categories of local governments should be re-examined and each of them should be provided with resources consistent with their expenses;
- the equalization mechanism within a given category of local governments should be strengthened.

With regard to the management of payroll costs:

- reciprocal commitments between the central and local governments should be established on targets relating to the control of staff expense of the latter.
- the central government should incorporate these targets in its decisions on the spine point value and create a financial incentive for pooling services between communes and the clusters they belong to ;
- the local governments should abide by the legal limit on working hours as well as the regulations on wage supplements and strengthen a forward-looking management of jobs and skills.

[Read the report](#)

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