

FRANCE

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 647 795 km²**Population:** 66.865 million inhabitants (2017), an increase of 0.4% per year (2010-2015)**Density:** 103 inhabitants / km²**Urban population:** 80.2% of national population**Urban population growth:** 0.7% (2017 vs 2016)**Capital city:** Paris (16.3% of national population)

ECONOMIC DATA

GDP: 2 876.1 billion (current PPP international dollars), i.e. 43 013 dollars per inhabitant (2017)**Real GDP growth:** 1.8% (2017 vs 2016)**Unemployment rate:** 9.4% (2017)**Foreign direct investment, net inflows (FDI):** 47 336 (BoP, current USD millions, 2017)**Gross Fixed Capital Formation (GFCF):** 22.5% of GDP (2017)**HDI:** 0.901 (very high), rank 24 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

France is a unitary republic with a semi-presidential regime determined by the Constitution of the 5th Republic adopted in 1958. The executive power is exercised by the president, elected by direct universal suffrage for a five-year term, and the government is headed by the prime minister, who is appointed by the president and responsible to the parliament. The parliament is bi-cameral. The lower house, the National Assembly (*Assemblée nationale*), is composed of 577 members elected by direct universal suffrage for a five-year term while the upper house is the Senate (*Sénat*). Senators are elected for a six-year term by indirect suffrage by “*grands électeurs*”, an electoral college of about 145 000 local elected officials who represent territorial units and citizens living abroad (regional, departmental and municipal councillors). Half of the Senate is renewed every three years.

Decentralisation is enshrined in the first article of the 1958 Constitution, which states that “France shall be organised on a decentralised basis” as well as in article 72, which recognises the principle of local government autonomy. This principle was consolidated by the Constitutional revision of 2003, which dedicated a full title XII to subnational governments (*collectivités territoriales*). It describes the decentralised organisation of the Republic based on three levels of SNGs (communes, departments and regions), as well as on special-status communities and overseas territorial communities. The main legal sources governing SNGs are found in the General Code of Subnational Governments (*Code général des collectivités territoriales*) promulgated in 1996, and regularly amended. All three levels have their own deliberative assemblies (municipal, departmental and regional councils) that are elected independently by the population by direct universal suffrage, for a six-year term. The president of the regional council and the president of the departmental council are elected by their respective council from among their members to exercise the executive power. In municipalities, the mayor (*maire*) heads the executive body and is elected by the municipal council from among its members.

The decentralisation process started in 1982-83 with the adoption of decentralisation laws establishing the principle of “free administration”, and organising the transfer of responsibilities (education, social affairs, etc.) and resources (staff, finances), in particular to the departments and the regions, created as self-governing bodies in 1986. After this founding period, now referred to as the “first Act” of decentralisation, a “second Act” was launched in 2003-04. Additional responsibilities were transferred to departments and regions, which also gained more financial autonomy. SNGs also were given the opportunity to carry out experiments in several areas. In 2010, a multi-faceted local government reform took place, which included: a clarification of responsibilities; the setting up of common “territorial councillors” for *régions* and *départements*; a reform of the local taxation system (reduction of local taxing power) and of equalisation mechanisms; a streamlining of inter-municipal cooperation; the creation of a new status of metropolis, etc. Important parts of the 2010 legislative package were however revoked by the government which took office in 2012. The same government launched the “Act III of decentralisation” with a new set of reforms between 2013 and 2015. They included the law on metropolises (2014), regional mergers (2014) and the law NOTRe (2015) on the New Territorial Organization of the Republic, which modifies the allocation of responsibilities across levels of subnational governments. In particular, it reinforces the competences of regions (economic development, territorial planning, environment protection, vocational training).

In July 2017, the government established the National Conference of Territories (*Conférence nationale des Territoires* - CNT) as a new platform of dialogue and concertation across levels of government. Chaired by the Prime Minister, the CNT is composed of members of the Government, representatives of local and regional government associations, the Parliament and the Committee on Local Finance. The law NOTRe has also reinforced the role of the French Observatory on local finance and public management (*Observatoire des Finances et de la Gestion publique Locales* – OFGL). The group was established as a partnership between the French Government and the associations of local governments to form a neutral platform to gather, analyse and share information on local finances and public management.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	35 357 municipalities (<i>communes</i>)	101 departments (<i>départements</i>)	18 regions (<i>régions</i>)	
	Average municipal size: 1 891 inhabitants			
	35 357	101	18	35 476

OVERALL DESCRIPTION. The three-tiered subnational system of France (including Corsica and outermost regions) comprises 18 regions at the upper level, 101 departments at the intermediate level and 35 357 municipalities at the lower level.

REGIONAL LEVEL. The regions were established recently in 1972 as “public establishments”, transformed into self-governing entities in 1982 with the first direct elections held in 1986, and again mentioned in the constitution in 2003. In 2015, the regional boundaries were substantially modified by the Law 2015-29 on the Delimitation of Regions and Regional and Departmental Elections. It introduced forced amalgamations for regions in mainland France, whose number was reduced from 22 to 13. Despite the reform, French regions are still quite heterogeneous in terms of area, demography and socio-economic development. Although the differences in the size of the regions have narrowed with the reform (the average regional size increased from 2.88 million inhabitants in 2015 to 5 million in 2018), the population remains unevenly distributed over the territory: 31% of the French population lives in one of the two most populated regions (Ile-de-France and Auvergne-Rhône-Alpes) which represent only 13% of the territory. In 2016, France had the tenth-highest regional disparities in GDP per capita among 30 OECD countries with comparable data. France also has the five outermost regions located in Latin America (Guyane), Lesser Antilles (Martinique, Guadeloupe) and Indian Ocean (La Réunion and Mayotte). These regions are an integral part of the European Union but they have a special status according to the Article 349 of the Treaty on the Functioning of the European Union (TFEU) due to their characteristics (remoteness, islands, small size, etc.). As a result, they have specific measures that apply to them. Corsica also has special status including greater autonomy, especially in areas related to protection of cultural goods.

DEPARTMENTAL LEVEL. Created by the French revolution in 1791, the departments have remain unchanged since (except those added to the initial list of 83 departments to reach 101 today). While their geographical size is homogeneous (their boundaries have been defined according to the same general principle), their demographic size varies substantially from one department to another: the least populated (Lozère) had 35 times fewer inhabitants than the most population (Nord) in 2018. The abolition of the départements is regularly discussed but all attempts (2010, 2015) were eventually abandoned in the end.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. France has the second-highest number of municipalities after the United States. French communes account for 27% of all municipalities in the OECD and 41% in the EU. Their average size is the third-lowest in the OECD, and the median size (435 inhabitants) is the second to last, before Czech Republic. Additionally, 95% of French municipalities have fewer than 5 000 inhabitants, and even 86% less than 2 000 inhabitants. Mergers have always been strongly resisted. However, the status of “new municipality” (*commune nouvelle*), reactivated by a law in 2015 in order to promote municipal mergers is gaining momentum. This arrangement allows the abolished municipalities in a merger process to remain and retain some specificities such as a delegate mayor, a town hall (annex), an advisory council, which function as deconcentrated localities. As of January 2018, 560 new municipalities - bringing the total to nearly 1 900 municipalities - had been created.

The preferred response to municipal fragmentation has been inter-municipal cooperation (IMC). It has a long tradition in France as the first municipal syndicates were created in 1890 and they developed over the next decades, giving rise to urban districts and urban communities in 1966. The main push was, however, law no. 92-125 of February 1992, which promoted IMC as integrated territorial projects with own-source taxation powers, (i.e. ability to raise their own sources of tax revenue), with “communities of communes” and “communities of cities” and later “agglomeration communities”. In 2014, the law NOTRe passed to simplify this very complex inter-municipal organisation by setting up a minimum threshold for IMCs (15 000 inhabitants instead of 5 000), resulting in a decrease in the number of IMC structures with own-source tax (*EPCI à fiscalité propre*), from 2 456 in 2013 to 1 258 in January 2019. Today, all French municipalities are part of an *EPCI à fiscalité propre*, ranging in size from 21 metropolises (greater than 400 000 inhabitants), 13 “urban communities”, 223 “agglomeration communities” and 1 001 “communities of municipalities” in rural areas (as of January 2019). With their own taxing powers, these structures form a quasi-fourth subnational level of government.

“*Métropole*” status was created by the 2014 law for the Modernisation of Territorial Public Action and Metropolises (MAPTAM) for the largest urban areas, with differentiated legal status according to the cities. Paris, Lyon and Aix-Marseille-Provence, which already had a specific status since the 1982 PLM law, received different ad hoc governance structures - i.e. different structure, responsibilities and resources. Additionally, after 2015, the “*Métropole de Lyon*” substituted the urban community of Lyon within the Rhône department and on 1 January 2019, the reform of the status of Paris, adopted on 28 February 2017, came into force, merging the municipality and the department into a new community with special status called “*Ville de Paris*”.

STATE TERRITORIAL ADMINISTRATION. France has maintained, at both regional and departmental levels, a strong and powerful prefectural administration led by a prefect (*préfet*), as well as local directorates of various ministries placed under their authority, so-called “deconcentrated services”. According to the constitution, the prefect is the direct representative of the prime minister and every minister at the departmental level. The prefect implements government policies and their planning. The prefect is responsible for national interests, administrative supervision and compliance with laws and is in charge of public order.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

According to Article 72 of the Constitution, subnational governments may “take decisions in all matters arising under powers that can best be exercised at their level”. Interpreted as giving a “general clause of competence” to all levels of SNGs, this article has been debated in a context of growing confusion concerning their respective responsibilities, deemed to generate overlapping and duplication of spending. After different contradictory reforms (1982-83 decentralisation laws, 2003-04 laws and 2010 territorial reform), the Law NOTRe of 2015 finally clarified the distribution of competences across levels of government. The general clause of competence was removed for regions and departments, while it remains for municipalities. Despite this clarification, a 2017 report from the *Cour des Comptes* suggested going further in this direction, in particular concerning departments and regions and between municipalities and IMC entities. Some asymmetry has been introduced by recent reforms, in addition to pre-existing asymmetry between outermost regions, Corsica and other regions. This asymmetry concerns mainly metropolis and special status metropolises such as Paris, Lyon and Aix-Marseille-Provence. With its new status, the “*Ville de Paris*” has additional powers in the fields of traffic management, public parking, and additional police powers, among others. Regions and departments has now “specialised responsibilities”. In particular, regions gained greater responsibilities regarding regional economic development, territorial planning and environment protection planning. Regions have also been devolved competences for the management of European funds. Departments are “*chef de file*” regarding social affairs, focusing on social solidarity and territorial cohesion as well as supporting rural municipalities.

Municipalities remain the only local level that benefits from the general clause of competence, giving them explicit freedom to act in the best interests of the populace at local level and allowing them to respond to the day-to-day needs of local citizens. As a result, they have very diversified responsibilities, covering almost areas. Municipalities also carry out some responsibilities on behalf of the State (civil registration, electoral list). Several competences are shared between the different subnational levels but also with the central government (education, social affairs, roads, etc.), which can result in the duplication of competencies between the SNGs and state deconcentrated administration. A reform is currently on-going based on the recommendations of the “Public Action Committee 2022” (CAP 22) to streamline the territorial administration and reduce overlapping.

Besides IMC bodies, which provide joint services on behalf of member municipalities, municipalities can also use local public companies that have separate legal status. In France, the approximately 1 220 local public companies cover various areas such as urban planning, housing, tourism, transports, energy, waste management and water.

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MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS	DEPARTMENTS	MUNICIPAL LEVEL
1. General public services	Internal administration	Internal administration; Support to rural municipalities	Municipal administration; Administrative services delegated by the central government (civil register, electoral issues)
2. Public order and safety		Departmental fire and emergency services	Municipal police
3. Economic affairs / transports	Regional spatial planning; Regional transport plans; Regional train lines; School and inter-urban transportation; Civil airports; Non-autonomous harbours economic development (aid schemes to SMEs, innovation, internationalisation), R&D; Management of EU funds	Rural development; Secondary roads; Sea and fishing ports	Municipal roads; Local public transport; Local economic development
4. Environmental protection	Environmental protection planning; Regional parks and preservation areas; Energy saving; Water protection	Water protection	Waste management; Sanitation
5. Housing and community amenities	Housing subsidies	Housing subsidies and management	Land use planning and urban planning; Building permits; Housing subsidies and management; Drinking water
6. Health			Public health (vaccination)
7. Recreation, culture & religion	Cultural heritage and monuments; Museums; Artistic training	Culture; Libraries; Museums; Archives; Historical buildings; Tourism	Culture; Sports; Archives; Museums; Libraries; Tourism
8. Education	High schools (building and technical staff); Vocational training and apprenticeship; Job training programmes; Support to universities and R&D	Secondary schools (building and technical staff)	Nursery schools; Pre-schools; Elementary schools ((building and technical staff); Extra-curricular activities
9. Social protection		Social welfare for families, children, disabled people, elderly people, social insertion	Social welfare (jointly with departments); Support to families and youth

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: regions, departments, communes, inter-municipal cooperation entities, as well as primary and secondary schools and local government agencies.

SNA 2008

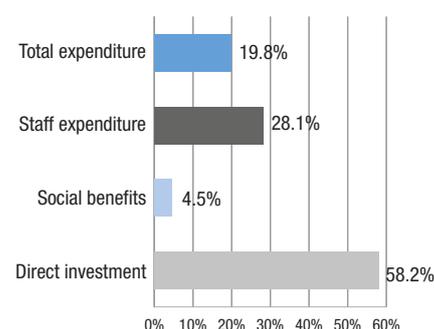
Availability of fiscal data:
High

Quality/reliability of fiscal data :
High

GENERAL INTRODUCTION. The financial autonomy of local governments is guaranteed by the Constitution, in particular through the 2003 revision. Article 72-2 mentions that local governments may receive revenues from various kinds of taxes and may have the autonomy to fix the base and rate within certain limits. It also states that any transfer of competences from the State must be matched by a corresponding transfer of financial resources and gives equalisation constitutional status. The organic law of 29 July 2004 on financial autonomy further defines the own resources of SNGs and sets a minimum threshold for each category of SNG (ratio of fiscal autonomy) – in principle, they cannot be inferior to their 2003 value.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
Total expenditure	4 621	11.2%	100%	
Incl. current expenditure	3 685	8.9%	79.7%	
Staff expenditure	1 478	3.6%	32.0%	19.8%
Intermediate consumption	938	2.3%	20.3%	
Social expenditure	483	1.2%	10.5%	28.1%
Subsidies and current transfers	696	1.7%	15.1%	
Financial charges	37	0.1%	0.8%	
Others	52	0.1%	1.1%	4.5%
Incl. capital expenditure	936	2.3%	20.3%	
Capital transfers	147	0.4%	3.2%	
Direct investment (or GFCF)	789	1.9%	17.1%	58.2%



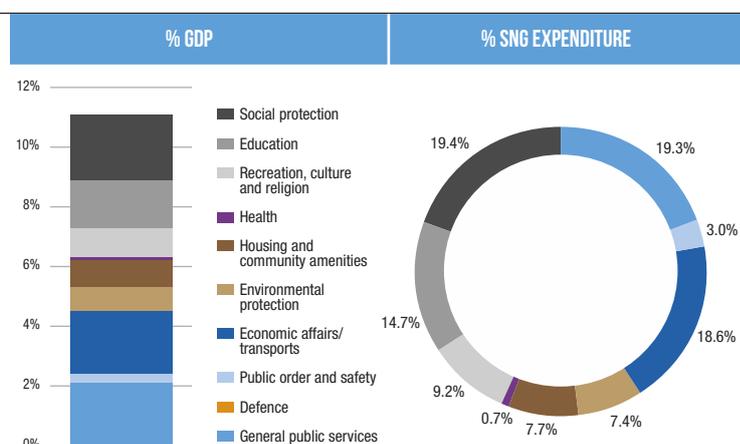
EXPENDITURE. Despite the decentralisation process, begun in 1982, which has transferred significant spending responsibilities, the share of SNG expenditure in GDP and public expenditure remains below the OECD average (16.2% and 40.4% respectively) and EU28 average (15.5% of GDP and 33.4% of public expenditure). The “municipal block” (municipalities and IMC structures) makes up the bulk of SNG spending (55% in 2016), followed by the departments (32%) and the regions (13%). Within the “municipal block”, IMC entities represented 27% of spending. However, there has been a significant increase in SNG expenditure - from 8% of GDP in 1980 to 11.2% in 2016, resulting from decentralisation but also from a strong increase in operating expenses, particularly staff costs. The growth of SNG workforce has been much more dynamic at SNG level than at central level, even after neutralising the impact of staff transfers. In 2016, the weight of staff expenditure in SNG spending was in line with the EU28 average (32.9%) but the share in public staff spending is well below the EU28 average (50.9%).

To contain spiralling operating expenditure and involve further SNGs in national fiscal consolidation policy, the Public Finance Programming Act 2018-2022 has provided for a contractualisation between the State and the largest SNGs (regions, departments, large cities and IMC entities, i.e. around 322 SNGs targeted representing 60% of total SNG current expenditure). SNGs are contractually committed to limit the annual increase in their operating expenses to 1.2%, in order to achieve EUR 13 billion in savings during the five-year period. In exchange, grants will not be reduced. As of June 2018, 230 contracts between the State and local authorities were signed.

DIRECT INVESTMENT. Investment is a key function of French SNGs, which accounted for 58.2% of public investment and 1.9% of GDP in 2016, above the OECD average (respectively 56.9% and 1.7%) and EU28 average (51.6% and 1.4%). The share of investment in SNG expenditure is also significant, above the OECD and EU average (respectively, 10.7% and 8.7%), showing that investing is a key function of SNGs. 60% of SNG investment is carried out by the “municipal block”, regions and departments having the same weight (20%). The priority areas for investment were economic affairs and transport (30% of SNG investment in 2016, general public services 16%), education and housing and communities amenities (around 13.5%). SNG investment has fallen sharply since the crisis, decreasing by 1.7% per year in real terms between 2007 and 2017 because of fiscal consolidation policies. This resulted in an underinvestment estimated at 15% versus municipalities’ current mandate. SNG investments may be implemented through public procurement, concession contracts and public-private partnerships. The bulk of SNG investment is done within the framework of contractual arrangements involving all levels of government called state-region planning contracts covering seven-year cycles (*contrat de plan État-région*).

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Over the years, social protection has become the biggest spending item, slightly ahead general public services and economic affairs and transport. Education ranks fourth while it is the leading spending item of SNGs in the OECD on average (24.8% of SNG expenditure), followed by health (18.1%) which is very marginal as healthcare remains a function of the central government. SNGs account for the bulk of total public expenditure in the housing and community amenities sector (78%), environmental protection (86%) and recreation culture and religion (82%). Most of social spending is done by the departments. In fact, half of their spending goes to social assistance and the minimum income allocation (RSA). Regions have primarily contributed to education expenditure (vocational training, apprenticeship and school education) and to rail passenger transport. Municipal spending focuses on urban planning, urban services, schools (buildings, maintenance and running), sport and cultural infrastructures and youth policy.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
Total revenue	4 677	11.3%	21.3%	
Tax revenue	2 410	5.8%	20.0%	51.5%
Grants and subsidies	1 463	3.5%		31.3%
Tariffs and fees	737	1.8%		15.8%
Property income	51	0.1%		1.1%
Other revenues	16	0.0%		0.3%

OVERALL DESCRIPTION. France stands out for the importance of tax revenues in total SNG revenues compared to the OECD and EU28 average (respectively 44.6% and 41.1%). By contrast, the share of grants and subsidies is lower: 31.3% vs 37.2% in the OECD and 44.1% in the EU28. The share of each source of revenue is quite balanced by level of SNG. However, tax revenues accounted for 65% of departmental revenue, 56% of municipal revenues and 53% of regional revenues in 2016 while grants and subsidies amounted to 33% of revenues of the regions, 29% for the municipal block and 26% for the departments. There has been several fiscal reforms in recent years regarding the decentralisation process. In 2010, an important tax reform took place as well as a reform of equalisation mechanisms. New reforms are planned, in particular because the government has decided to abolish the residence tax. This should lead to a broader reform of local taxation, together with a reflection on the system of grants and equalisation.

TAX REVENUE. Although accounting for a large part of SNG revenues, SNG taxes represented 5.8% of GDP and 20% of public tax revenues, which is below the OECD average (7.1% of GDP and 31.9% of public tax revenues in 2016) as well as the EU28 average (6.4% of GDP and 24.0% of public tax revenues). One feature of the French subnational tax system is the importance of own-source tax revenues compared to shared taxes. In fact, until recently, tax sharing arrangements did not exist or were insignificant. With the decentralisation laws of 2003-2004 and the 2010 local finance reform, which abolished the local business tax. This situation has evolved and some shared taxes were introduced. This has diminished the share of own-source taxes, leading to less tax

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autonomy. The reform led to a tax “specialisation” between subnational government tiers (all SNGs used to benefit from the same four local taxes before the reform). Departments and regions lost many of their taxation powers. Another important reform is on-going since the decision of the French government to abolish the residence tax (*taxe d'habitation*). The Mission Bur-Richard, established by the Prime Minister in October 2018, made a series of proposals to replace this tax, including the development of shared taxation.

Among the current shared taxes are the internal consumption tax on energy products (TICPE, shared with regions and departments, representing 9.3% of SNG tax in 2016), a surcharge on the apprenticeship tax (shared with the regions), a share of the special tax on insurance contracts (5.4% of SNG tax), the tax on network companies-IFER (7.5% of SNG tax). From 2018, following the regional reform, regions will benefit from a share of the VAT.

The system of own-source taxes is based on four main local taxes: the residence tax, the property tax on building, the land tax, and a “territorial economic contribution”. Municipalities and EPCI receive the residence tax, and both municipalities and departments are entitled to property taxes on buildings and land. They can vote to fix those taxes rates, but they have to comply with limits set up by the central government and have no autonomy to set the tax base. In addition, all SNGs, including the regions, receive the “territorial economic contribution” (which has replaced the local business tax), paid by companies, and itself comprising a real estate tax-CFE (10.4% of SNG tax) and a tax on business added value-CVAE (10.4% of SNG tax). The CVAE is shared as follows: 26.5% for the communes and EPCIs, 23.5% for departments and 50% for the regions. Other own-source taxes include the tax on property transactions (9.7% of SNG tax), a transport contribution, a waste tax, a tourist tax, tax on electricity, etc.

Property taxes stood for 59% of SNG tax revenue and 30% of their total revenue in 2016, representing a major source for municipalities and departments. They amounted to 3.4% of GDP one of the highest levels in the OECD where the average is 1.1% of GDP. This high level will, however, decrease with the abolition of the residence tax, which is a tax paid by the persons residing in the property, whether this is a tenant (paying or otherwise) or the owner and based on the cadastral “rental” value of the property. The abolition is being phased in over three years so that eligible households will see a 30% reduction in their *taxe d'habitation* bill in 2018, a 65% reduction in 2019 and a 100% reduction in 2020. In May 2018, the government published a report on reforming local taxes, which stated that the *taxe d'habitation* would be completely abolished by 2021 (instead of 80% of households as initially announced).

GRANTS AND SUBSIDIES. Transfers from the central government have three purposes: compensation (stabilising local budgets), equalisation (reducing income disparities) and orientation (developing sectoral policies). Operating grants account for 87% of total grants while capital grants amounted to 13%.

The most important grant is by far the general-purpose operating grant (*Dotation Globale de Fonctionnement* - DGF), which benefits all SNGs and comprises several sub-components. It represented 50% of all grants and subsidies in 2016, and between 13% and 15% of regional, department and municipal revenues.

The Annual Finance Law governs the vertical equalisation mechanism that, applicable to all SNGs, is set on a yearly basis. Using a formula based on the potential income from the four main local taxes and the remaining tax revenues, it calculates what the resources would be of the regions based on the average tax rate. In an effort to reduce subnational expenditure and in line with budgetary consolidation policies, transfers to local governments through the DGF and other transfers were frozen over 2011-13 and have been decreasing since 2014 (the DGF total amount decreased from EUR 41 billion to EUR 30.9 billion from 2014 to 2017). In return, equalisation grants have been strengthened to support the weaker local governments.

A reform of the DGF has been announced for several years. Although initially planned for 2016, it has been postponed as many local governments asked to make some adjustments and the context was particularly difficult, because of strong pressures on local finance resulting from large cuts in central transfers to SNGs. The reform aims at reaching a greater level of simplicity, transparency and equity, and adapting the DGF to the current territorial reform. This reform also aims at improving the redistribution of funds between SNGs. Distribution criteria are often seen as particularly opaque and the redistributive function could also be improved, given the sizeable and “unjustified” disparities between municipalities in per capita DGF.

There are other several equalisation grants (vertical and horizontal), such as the grant for urban solidarity, the grant for rural solidarity, the equalisation fund for departments based on the property transaction tax, the Equalisation funds based on the business value added tax (CVAE, for departments and regions) and the Equalisation fund for inter-municipal and municipal resources (FPIC, redistributing 2% of total tax revenues in 2016), which was introduced in 2012 to compensate for the abolition of a “professional tax” in 2011.

The main capital expenditure grant, the VAT compensation fund, is a tool for the central government to support local investment, and its base is to be expanded after 2016.

OTHER REVENUES. French communes are entitled to receive fees from commercial services mainly for local public services. They can set the rate of these fees. In the case of French SNGs, this revenue accounts for a slightly larger percentage than the OECD average of 14.9% and especially the EU28 average (11.6%).

SNGs receive a small share of property income (1%), below the OECD average (2.0%), although they own physical and financial assets, including shares in local public companies.

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	3 913	11.1%	8.9%	100%
Financial debt*	3 209	9.1%	8.1%	82.0%

* Currency and deposits, loans and bonds

FISCAL RULES. Local authorities are subject to the principle of balancing their expenditures and revenues by section (operating and investment), which is specified in Article L.1612-4 of the General Code of Subnational Governments. They are subject to judicial review by Regional Chambers of Accounts. In addition, contractual arrangements between the State and large SNGs and annual expenditure reviews were introduced by the Public Finance Programming Act 2014-2019. The aim is to document precisely the savings required to comply with local spending constraints (see above).

DEBT. SNGs are able to borrow without approval from the central government, but long-term borrowing is restricted to investment (golden rule). In the aftermath of the banking crisis, the legal framework for borrowing was strengthened through the 2013 Law on the separation and regulation of banking activities (e.g. foreign-currency borrowing, regulation of floating-rate borrowing, use of swaps, etc.) in order to reduce financial risks. The law also authorised the creation of the *Agence France Locale*, i.e. a new entity wholly-owned by the French local authorities themselves and dedicated to their funding. It distributes loans to their members by raising funds in the capital markets (pooled financing).

The outstanding debt of SNGs account for 11.1% of GDP and 8.9% of general government debt, below the OECD average (24.5% and 20.7%, respectively) and the EU28 average (14.3% and 14.4%, respectively). Financial debt ("Maastricht debt") accounted for 82% of total outstanding debt, the remaining part being composed of other accounts payable (commercial debt, arrears). Within financial debt, bond financing is still limited: 8.9% of total financial debt in 2016 compared to 91.1% for loans.



Lead responsible: OECD
Last update: 02/2019

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Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa // ILO // INSEE.

Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Eurostat // Collectivite-gouv.fr // OFGL (2017) Rapport de l'Observatoire des finances et de la gestion publique locales: les finances des collectivités locales en 2017.

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