



Chambre régionale des comptes
d'Île-de-France

The budgets of local authorities facing the economic crisis. A joint survey of the French National Court of Audit and Regional Courts of Audit

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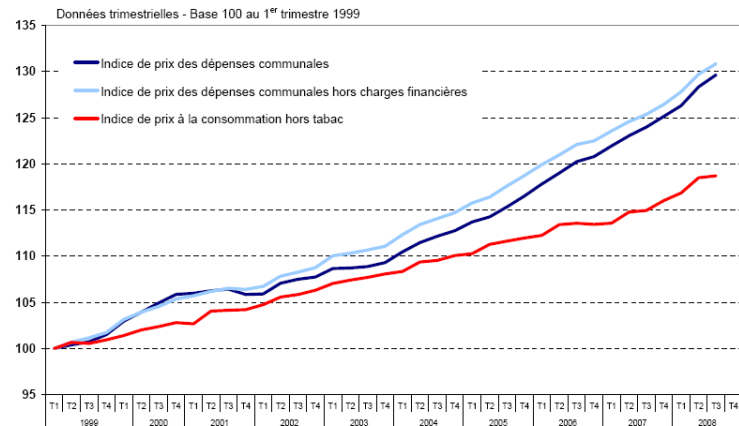
I – A NEW ECONOMIC AND FINANCIAL ENVIRONMENT FOR LOCAL AUTHORITIES IN FRANCE

- The deficit of the national budget towered to 114 billion€ in 2009
- The aggregate deficit of local authorities was cut down by 5,6 billion€ in 2009

I – A NEW ECONOMIC ENVIRONMENT FOR LOCAL AUTHORITIES IN FRANCE

Some meaningful indicators relevant to the current situation

- Rising price index

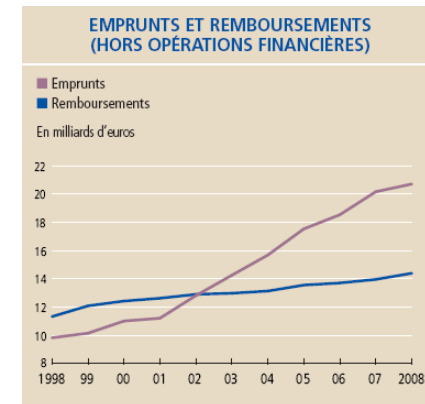
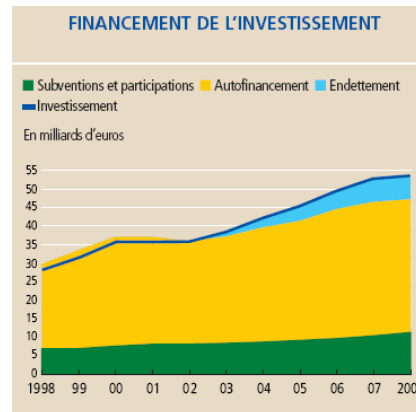


- Energy costs rose by 3,5 from 2004 and 2008
- The construction price index rose by 1,4 from 2004 to 2008

I – A NEW ECONOMIC ENVIRONMENT FOR LOCAL AUTHORITIES IN FRANCE

A few meaningful indicators relevant to the current situation

- Trends in borrowing requirement



- « Scissors Effect » between rising expenditure and dwindling revenue

II – METHODOLOGY AND TOOLS OF THE SURVEY

The goals of the survey

- The purpose of the survey was to review how local authorities responded financially to the early signals of economic downturn
- The survey took a mainly micro-economic approach based on a wide and representative sample
- The survey was based on the latest financial data available for local budgets

II – METHODOLOGY AND TOOLS OF THE SURVEY

A significant nation-wide sample under review

- 19 regional courts of audit took part in the survey
- 74 local authorities are in the sample, including
 - 4 regions
 - 22 départements
 - 8 EPCI : councils established for the cooperation between town councils (intercity cooperation)
 - 39 town councils
 - 1 agency whose mandate is to provide locally welfare and assistance (CCAS)

II – METHODOLOGY AND TOOLS OF THE SURVEY

A very « responsive » schedule for a timely completion

- 2009 (1st semester) : An explanatory note was presented to the coordinating body of the National Court of Audit
- 2009 (2nd semester): Development of the methodology to conduct the survey
- 2010 (1st semester): Beginning of reviews in regional courts ending in the completion of interim reports
- 2010 (2nd semester) : Completion of final reports by regional courts followed by a national synthesis which should take account the latest possible findings from reviews conducted on local budgets which could not balance out expenditure by sufficient revenue
- 2011 (1st term) : National Report due to be published

III – THE MULTIFARIOUS LOCAL RESPONSES HAVE NOT SHAKEN FINANCIAL BASICS

The crisis has enhanced long-standing trends (1)

- Long-standing trends still prevail because:
 - The crisis had a lesser impact on budgets than initially expected
 - Local authorities must comply with the rule of balancing their budgets
 - Operating expenditure grew more slowly than in previous fiscal years
 - The ratio between operating surplus and income dwindled from 30% to 18% in the last 10 years.
 - The structure of revenue has remained broadly untouched
 - Revenue has been stable
 - Revenue has been stable despite the impact of the recently passed Local Tax Reform Act

III –THE MULTIFARIOUS LOCAL RESPONSES HAVE NOT SHAKEN FINANCIAL BASICS

The crisis has enhanced long-standing trends (2)

- The impact of the crisis was stronger on départements
 - Wider gap (« scissors effect ») between expenditure and revenue
 - Gap widened by new responsibilities to départements
 - Sharp increase of welfare and assistance
 - Negative impact of sluggish real estate market on the revenue of local authorities (ie. tax on real-estate sales and purchases)

III - THE MULTIFARIOUS LOCAL RESPONSES HAVE NOT SHAKEN UP FINANCIAL BASICS

The crisis has enhanced long-standing trends (3)

- Other local authorities display sharp contrasts
 - Town councils and councils for intercity cooperation (EPCI) suffered less than départements
 - Fiercer competition between bidders to win tenders contributed to lower the cost of public contracts awarded
 - New legislation on local government triggered changes in strategies for fiscal year 2010
 - Depending on local environment, there are different perceptions as to how expenditure will be affected (i.e. social welfare and assistance)

III - THE MULTIFARIOUS LOCAL RESPONSES HAVE NOT SHAKEN UP FINANCIAL BASICS

Many different responses depending on local authorities(1)

- Many but very different strategies according to local authorities
 - Three strategies were expected *a priori*: against the cycle; virtuous cycle ; drastic budget cuts
 - Most authorities resorted to the three options:
 - Regions have generally launched recovery plans
 - They set up targeted plans
 - They used the opportunity of the national plan (refunding of VAT on capital spending)
 - More emphasis placed on the « core business » obligations of local authorities
 - Steps to curb costs, especially those affecting operating expenditure
 - There is fear of a « domino effect »

III - THE MULTIFARIOUS LOCAL RESPONSES HAVE NOT SHAKEN UP FINANCIAL BASICS

Many different responses depending on local authorities (2)

- The decisions made by local authorities have not broadly changed trends or thrown off balance the structure of budgets
 - The crisis has been more a tell-tale than a disruptive factor*
- Three kinds of responses
 - « Rescue plans » for local authorities already in trouble before crisis
 - Some local authorities hardly changed their strategies
 - But others chose to adjust their budget forecasts during the 2009 fiscal year to cope with reduced revenue (i.e. tax on real-estate sales and purchases)
- The tax leverage was used in different ways :
 - Rather sizeably for départements
 - To a lesser degree in the case of regions
- In 2010, some authorities will not hesitate to downgrade their financial ratios

III - THE MULTIFARIOUS LOCAL RESPONSES HAVE NOT SHAKEN UP FINANCIAL BASICS

Deep concern for the years ahead (1)

- The uncertainties on the balance of coming budgets
 - The transfer of responsibilities in the field of welfare and assistance was not fully funded
 - Revenue transferred to fund new responsibilities lack momentum for increase
 - There is concern about the future of State subsidies to local authorities
 - Local authorities have enjoyed so far fairly low rates for their loans. But for how long?
 - The bulk of capital investment made by local authorities might fall dramatically

III - THE MULTIFARIOUS LOCAL RESPONSES HAVE NOT SHAKEN UP FINANCIAL BASICS

Deep concern for the years ahead (2)

- Shrinking margins in terms of revenue
 - Many local authorities (départements and regions) have expressed their concern about reduced tax autonomy
 - There is much uncertainty about the impact of the repeal of the local tax on businesses (taxe professionnelle)
 - The reform has guaranteed equal revenue for fiscal year 2010. But what is next?
 - There is fear that the tax burden might be handed over to households

III - THE MULTIFARIOUS LOCAL RESPONSES HAVE NOT SHAKEN UP FINANCIAL BASICS

Reshuffling financial rules and regulations

- Improving financial information
 - At the local level (especially for the loans floated by councils and the status of debts incurred)
 - At the national level, *financial data are only available with delay*
 - Improving referentials and harmonizing tools for analysis
- Reforming some budget and accounting regulations
 - Rules for depreciation should be clarified
 - Rules for other allowances should be amended
 - Accounting of various assets should be improved