Lyon France

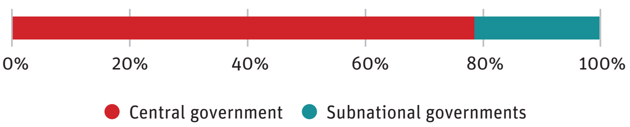
CITY:
1.1 mil. inhabitants

METROPOLITAN AREA
2.0 mil.
(+2.8% pop. change/5 years)

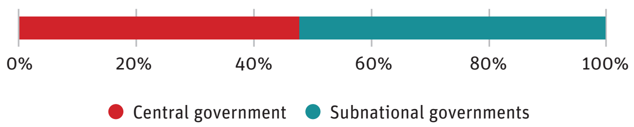
GDP: 135 % of the average EU28 GDP
(+0.9% average annual change in GDP /5 years)

How local public finance systems work in France

PUBLIC REVENUE



CAPITAL EXPENDITURE



France has a **three-tier system of subnational governments** (SNG). It is comprised of 18 regions (régions, including regions outside the territory of metropolitan France), 101 departments (départements) and 35,357 municipalities (communes). The financial independence of municipalities is enshrined in the constitution, particularly by an amendment from 2003. In particular, this amendment obliges the state to **provide adequate funding for a service if it delegate such competence to SNG.**

The investment power of French SNGs is a cornerstone of the system. It slightly exceeds the OECD average – in France SNG investment accounts for 58% of the public investment (OECD average 57%) (thus 1.9% of the GDP vs 1.7% of the OECD GDP) and EU28 (52% and 1.4% of GDP). Three-fifths of the investments are made by municipalities, while the regions and departments each account for one-fifth. Most important investments sectors are transportation and the economy (30% of local government investment), education, housing and civic amenities. SNG investment during the decade (2007–2017) following the economic crisis declined significantly (approx. 15%). **The majority of SNG investment is made through the Contrat de plan Etat-région, agreements in seven-year cycles that integrate all levels of public administration for basic investment and local development in general.**

Compared to other OECD countries, French SNG has broad authority to independently collect taxes. Tax revenue accounts for 52% of total SNG revenue (the OECD average is 45% and EU28 41%). This corresponds to a lower percentage of transfers and subsidies from the state (Francie 3 %, OECD 37% and EU28 44%). For municipalities, taxes account for 56% of the revenue, while transfers and subsidies account for 29%. The system will be reformed in the near future since the state plans to abolish the residence tax.

Despite the high degree of fiscal autonomy SNGs, the taxes they collect amount to just 6% of GDP and 20% of public sector tax revenue (OECD average 7% of GDP and 32% of public sector tax revenue, EU28 6% of GDP and 24% of public sector tax revenue).

France is unique for its high degree of independently collected local taxes. Up until 2003, there were no shared taxes whatsoever. After the reforms of 2003, 2004 and 2010, when local business tax was abolished and a some shared taxes were introduced, regions and departments lost a great deal of their fiscal autonomy, since tax specialization occurred (previously, all SNGs could collect the same taxes). The roles of shared taxes will probably increase, since another reform is being prepared in conjunction with the elimination of the residence tax. Shared taxes currently include an internal consumption tax on energy products (TICPE, state, region and departments), a surcharge on the apprenticeship tax (state and regions), a share of the special tax on insurance contracts (at all levels), and a tax on network companies (energy sector, railways, telecommunications — at all levels). After the reform, regions should also receive a share of the VAT.

French SNGs independently levy four main taxes: the residence tax (municipalities and associated municipalities), property tax on building and land tax (divided between municipalities and departments, but the system for determining the overall amount of tax is managed centrally) and “territorial economic contribution”. This last tax consists of property tax and value added tax from companies and has partially replaced the local business tax. It is collected on all levels of subnational government (municipalities receive 27%). Other taxes collected independently include the tax on real estate transfers, transportation tax, garbage collection tax, tourism tax, tax on electricity and others.

The primary source of SNG tax revenue are property taxes (residence tax, property tax on building and land tax) which in 2016 accounted for 59% of the SNG tax revenue (30% of the total SNG revenue, more than 3% of the GDP, whereas the OECD average is 1%). This percentage will surely fall when the residence tax is abolished, which is planned for 2021.

Transfers and grants from the state budget perform three functions: compensation to stabilize local budgets, equalisation to make up for income disparity and implementation of development/sector policies. The main grant at all levels of local government is the DGF – Dotation globale de fonctionnement, **a general grant for operations (50% of all grants and transfers in 2016).** However, in recent years this grant has declined. On the contrary, equalisation transfers for poorer areas have increased. Other mechanisms include grants for urban solidarity, rural solidarity and several types of equalisation funds. The amount and calculation of all grants and transfers is determined each year by the Financial Law. Reform of the DGF mechanism has been postponed several times.

Revenues of French SNGs from fees are relatively high (16% vs. 15% OECD and 12% EU28). This primarily concerns fees for public services, water, electricity, and gas, the amount of which is determined locally. Property income is negligible (1% vs 2% OECD).

Source: http://www.oecd.org/cfe/regional-policy/Observatory-on- Subnational-Government-Finance-and-Investment.htm