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 Analyst Contact:

LONDON +44.20.7772.5454

 Daniel Marty +44.20.7772.1429  
 Associate Analyst  
 daniel.marty@moodys.com
 

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## France's Territorial Reform Is Unlikely to Help Local Governments Meet Their Budget Targets

From [Credit Outlook](#)

Last Monday, French President Francois Hollande announced measures to simplify the institutional framework of regional and local governments (RLGs) across the country. Government officials estimate that the measures will reduce RLGs' expenditures by increasing efficiency gains.

The government's projections notwithstanding, we do not believe these measures will generate material net savings for RLGs over the next few years because the measures only redistribute costs among different government bodies. In addition, the efficiency gains from consolidating governments will take a long time to materialise and have an unproven track record of lowering costs. This leaves RLGs having to look elsewhere for the resources to offset the French government's recently instituted €28 billion cut in transfers to RLGs for 2014-17.

The French government will consolidate RLGs, reducing the number of metropolitan regions to 14 from 22. The central government wants these metropolitan regions to have a greater role in the territorial development of France by transferring to them some of the responsibilities of *départements*, which are intermediate local authorities mainly responsible for education and social benefits. The *départements* will allocate their remaining responsibilities to other tiers of the RLGs before disappearing in 2020.

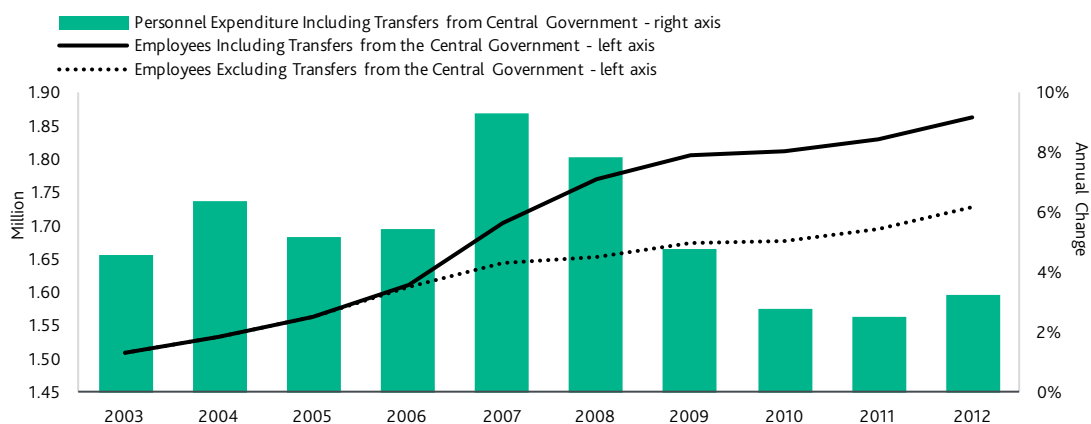
These changes will likely save RLGs some money, but without hard cuts to rising labour costs (see exhibit) and other expenditures, we don't think the savings will be material. The measures provide RLGs with little incentive to combat the political challenges involved in cutting expenditures, eliminating redundant costs and streamlining operations. Moreover, consolidating RLGs risks inadvertently raising labour costs because employee salaries in the RLG with lower salaries may rise to match the higher employee salaries of the other RLG.

### What is Moody's Credit Outlook?

Published every Monday and Thursday morning, Moody's [Credit Outlook](#) informs our research clients of the credit implications of current events.

EXHIBIT 1

### Efficiency Gains at French Regional and Local Governments Will Not Likely Reverse Sustained Growth in Personnel Expenses



Sources: Insee, Observatoire des finances locales and Moody's Investors Service

Although we see some long-term efficiency gains from mutualised capital expenditures for large infrastructure projects and general consumption for *intercommunalités*,<sup>1</sup> French RLGs are subject to more immediate budget consolidation pressures. Under France's stability programme for 2014-17, the French government plans to gradually reduce the amount of money it transfers to RLGs by €11 billion by the end of the programme, or 25% from current levels. The cumulative cuts of €28 billion over four years will challenge French RLGs, and the current reform does not address that challenge.<sup>2</sup>

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<sup>1</sup> Intercommunalités allow municipalities to group themselves under a legal body. Minimum size of intercommunalités will be 20,000 inhabitants by 2017 from 5,000 currently. Around 70% of existing intercommunalités fall short of meeting this threshold.

<sup>2</sup> See [French Local Sector Likely to Increase Debt as Government Cuts Transfers Deeply](#), 27 May 2014.

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**Author**  
Daniel Marty

**Production Associate**  
Vikas Baisla

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