Healthy communities face the challenges of ecological transition by Stanislas Boutmy, Director of Public Sector Finance, Sienna Private Credit

In the wake of the health crisis, after the energy crisis, despite inflation, regardless of the concerns of some of their representatives, local authorities are doing well.

Obviously, as in all advanced economies, the French local public sector is in a process of continuous improvement. Yes, reforms are necessary, reorganizations useful. All the more so, as we shall see, as they lie at the heart of future investments.

Despite everything, a strong and resilient local public sector

At a time when Fitch has just downgraded France and the ratings awarded by other agencies are being closely monitored, it is remarkable that only local authorities rated as central government have followed suit, respecting the ceiling it represents. The other ratings did not evolve in tandem. We can therefore observe a compression of the rating field between AA- and A-. This illustrates our solid financial and institutional situation.

The resilience of the local public sector - which includes communes and their inter-communal bodies, départements, regions, their satellites, hospitals and even, to a certain extent, social landlords - is due to a number of factors. Firstly, the regulatory framework in which they operate provides a solid safety net. Their budgetary constraints (balance obligations, indebtedness restricted to capital expenditure, predefined areas of competence) set them on a path of financial exigency. The controls to which they are subject, both institutional (prefect, regional audit chambers) and democratic (elections, deliberative assemblies with opposition, citizens, media), are at least as protective as the most committed general assemblies. Their staff are generally well-trained, competent, motivated and respectful of the general interest. Elected representatives are involved. Finally, the unfailing and constant support of the central government enables them to meet their obligations.

Local public sector debt on a virtuous path

In practical terms, INSEE estimates that local public administration (APUL) expenditure, and therefore revenue, will be just under €300 billion in 2022, or 11.2% of GDP, stable compared to 2021. Revenue growth is mainly linked to VAT and local tax revenues, despite stable tax rates. Current purchases of goods and services rose by 8.5%, reflecting inflation, and personnel costs by 5.6%, while subsidies and social benefits remained stable. Capital expenditure rose by 8.1% to €57 billion, boosted by €10 billion in investment grants.

Local authorities have no hesitation in taking on long-term debt to finance their investments, and have taken advantage of low interest rates to renew their debt, thereby reducing its cost. For the APUL as a whole, including SGP and IDFMobilité, debt now represents just 9.3% of GDP.

The missions of French local authorities differ from those of their European neighbors. France is a decentralized state, not a federal one. The central government is responsible for health, security, justice and defense. In the field of education, while programs and personnel are the responsibility of the central government, school buildings are the responsibility of local authorities. Public and school transport, social housing, dependency, waste, water, roads and local public facilities are all core local responsibilities. As a result, the local public sector accounts for the bulk of public investment in France. Sales in the public works sector, for example, are closely correlated with capital expenditure by local authorities.

These missions are at the heart of the ecological transition. The Pisany-Ferry/ Mahfouz report for France Stratégie, published at the end of May 2023, also points to the close link between the skills of local authorities and the investment effort required to achieve the 2030 goal of carbon neutrality. The report estimates the additional investment costs for the public sector: for housing renovation (+€14 bn), public buildings (+€10 bn), infrastructure (+€4 bn), vehicle electrification (+€1 bn)... A total of €34 billion per year. This represents an additional 50% effort required of local authorities, which they will not be able to finance themselves. We will therefore see a natural and virtuous rise in local public sector debt.

Since 2013, this is a sector that Sienna Private Credit has been following closely, with analysis and scoring tools, dedicated sourcing and several funds under management.