



France: Regional elections in a centralized country

- French regional elections, to be held on 6 and 13 December, take place in the midst of the so-called "Act III of decentralization".
- As from 1 January 2016, the number of regions will pass from 22 to 13. Regions will be reinforced in their current prerogatives and inherit new powers from departments. Still, French regions will remain light years far from their German or Spanish counterparts.
- Regarding the forthcoming elections, opinion polls for the 1st round predict a large victory for the right wing and potentially 2 regions won by the far-right Front National (FN).
- Nevertheless, final results of regional elections, to be known on December 13, are much less clear-cut. Strategies adopted by qualified lists between the two rounds will be crucial.
- In case of a FN victory in one or two regions, the concrete consequences of such an outcome would be very limited.
- As to whether FN increasing strength will have implications on the government political orientation in the run-up to Presidential elections in spring 2017 one could say that recent events had already shifted the government's policy towards heightened security measures. On the economic front, the government is unlikely to deviate from its social liberal orientation one year and a half away from next election, especially as reforms begin to bear fruits.

French regional elections take place in the midst of the so-called Act III of decentralization, a series of law which, notably, redraw the regional map - cutting the number of regions from 22 to 13 - and give stronger power to regions. This note aims at clarifying the role of regions in the French administrative organization and providing some insights on the forthcoming elections highlighting the importance of strategic moves between the two rounds of the vote.

Regions have been provided with limited revenues and responsibilities so far

Despite three Acts of decentralization (the third being at play), France remains a highly centralized country (see box 1). Local authorities, namely cities, departments and regions have limited power. In this administrative organization, regions are the poor relative. At around EUR 29bn, regions' budget is only 12% of the budget of local authorities as a whole against 57% for towns and 31% for department.

Strong dependence to the State and low fiscal autonomy

In terms of revenues, the regional dependence to the central State is structurally high, the financial autonomy principle being less stringent for regions than other local authorities. At around EUR 10bn, State grants represent 40% of total resources, which makes regions particularly vulnerable to the recent decline in State transfers.

This also reflects the weakness of fiscal receipts. In 2013, regions received EUR 13bn in taxes and duties, representing around 10% of total taxes and duties perceived by local authorities. This stemmed primarily from indirect contribution (EUR 8.2bn) with consumption tax on energetic products (EUR 4.4bn) and vehicle registration tax (EUR 2bn) yielding the main revenues.

The low taxation is patent in the case of direct contributions. In 2013, with 4.7bn coming essentially from the company value-added contribution (EUR 4.1bn), regions took only 6% of total direct taxes perceived by local authorities against 67% for municipalities and 27% for departments.

This feature is largely a consequence of the 2010 reform that suppressed the property taxes on buildings and unbuilt lands for the regions as well as the professional tax (for all localities), the latter being replaced by the company value-added contribution.



This resulted in a reduction in direct contributions but also a weakening of fiscal autonomy as wealth taxes are the main contributions on which local authorities can decide the rate (generally in the limit of 2.5 times the national average rate). Note that even though the replacement of the professional tax by the company value-added contribution did not translate into a loss of revenues, it resulted in a loss of fiscal autonomy as well since the rate of the latter is defined at the national level. Vehicle registration tax is the only contribution on which regions have levy. In 2013 it represented 15% of tax revenues and only 7% of total revenues.

Responsibilities focused on transport, education and vocational training

Regions' responsibilities are concentrated on economic and urban developments and education.

Regarding economic development, the main responsibility of regions is the management of aids to companies, with EUR 700mn a year of aids to SME's. They also draft regional development plans. Besides, regions dedicate a large part of their economic actions to innovation support. Regions deal with 70% of Research and Development expenditures of local authorities. Overall, regions spent EUR 2bn in 2013 on economic development. The other key aspect of regions' competences related to economic development is vocational training, including facilitating the entry of young people in difficulties into the job market, as well as apprenticeship. These areas mobilized EUR 5.4bn in 2013, essentially in operating expenses.

As for urban development, regions are in charge of regional transports, notably railway (Regional Express Train or TER) and infrastructure funding such as construction on new lines of High Speed Train (TGV). This mobilized EUR 6.8bn in 2013, 40% being investment expenditures.

Regarding education, regions are in charge of the construction, maintenance, equipment and management of high schools for which they spent EUR 6bn in 2013, including EUR 2.5bn in investments.

Other subaltern competences concern tourism, culture and environment for which regions dedicated respectively EUR 300mn, EUR 800mn and EUR 500mn in 2013.

Finally since 2014 regions are responsible for managing more than EUR 20bn of European funds, including 97% of the European Regional Development Fund (ERDF) and 90% of the European Agricultural Fund for Rural Development (EAFRD).

All in all, regions' expenditures amounted to EUR 28.7bn in 2013, EUR 11.1bn of which being investment expenditures. The share of investment over total expenditures is materially higher than for departments (20%) and slightly over municipalities (34%). In 2013, regions provided more than 15% of local authorities' investment expenditures.

Yet, due to the slow progression of local tax receipts and the decline of State grants, coupled with rapidly increasing expenditures, regions' auto financing capacity declined

A still highly centralized country

Since the Act I of decentralization in 1982, recognizing regions as a local authority, a growing number of State responsibilities have been transferred to local governments. This concerns notably public services such as building schools, roads, sport and cultural facilities, managing local public transports, school canteens, green spaces, etc. but also important areas of the social policy (as, for instance, the burden and management of minimum income) and economic development.

In order to fulfil these tasks, local authorities have seen their resources markedly increase over the past three decades. They jumped from 7.1% of GDP in 1982 to 9.3% in 1995 and 11.6% in 2014, which nearly represents EUR 250bn. Revenues can be broken down into two categories: own resources (mainly local taxes) and State financial transfers (mainly State grants). Local taxation present two distinctive features: i/ it is generally shared between the different local entities (regions, departments, municipalities) ii/ Wealth taxes (housing tax, property tax on buildings and unbuilt land and, formerly, professional tax) make the bulk of it, yielding around two third of direct contribution and 40% of total tax revenues.

Three constitutional principles define the financial relationship between central State and local authorities. First, a principle of financial autonomy prescribes that the ratio of own resources on total resources (ex non perennial ones) should not fall below a certain threshold (60.8% for municipalities, 58.6% for departments and 41.7% for regions). Second, a principle of compensation imposes that a transfer of responsibilities comes with the necessary financing. Third, a principle of equalization establishes a repartition of revenues in order to promote equality across local entities. In practice this takes a vertical form (though modulation of State grants) while in principle it could also takes a horizontal form (transfers between richer and poorer localities). In addition, a golden rule applies to local finances which are required to balance their operational budget (operational expenditures must be fully covered by revenues). Debt can be taken up but only for investment expenditures. However, a "debt rule" also exists: annual debt payments must be covered by permanent resources (whether excess operational revenues or investment revenues).

Thanks to these fiscal rules, local debt represents only a small portion of general government debt. In 2014, it reached 8.8% of GDP against a general government debt of 95.6%. But this also reflects the limited effective decentralization. Despite increased transfers of powers and the associated growing local budgets, central State still accounts for the lion share of public spending. In 2014, only 21% of public spending rested on local authorities. This is far below Spain (48%), Germany (46%) and Italy (30%). However local governments play a key role in public investment, taking on 60% of public spending in this area.

The local spending share is not likely to increase in the coming years. Since 2010, local authorities take a great part in the fiscal consolidation process. After a freeze of three years (2011-2013), the central State has reduced its General Operating Grants in 2014 and 2015 and plans to do so until 2017.

Box 1

Source: BNP Paribas



materially in recent years, inducing higher debt. Still, regional finances remain nonetheless healthy. Deleveraging capacity reaches 4 years, while the norm for local sustainable debt is 10 years.

Act III is no game changer

Since 2012, the Hollande government has embarked on a new stage of decentralization - known as Act III - a series of law that aims at reducing the number of local-government entities and rationalize their powers. It notably includes a new regional map and a law on a New Territorial Organization of the Republic (law NOTRe).

Bigger regions...

The law of 16 January 2015 on regional boundaries reduced, through mergers, the number of mainland regions from 22 to 13 as of 1 January 2016 (see chart 1). Doing so, regions' size will materially increase and should better suit economic geography. As things stand, many of them do not include any large metropolitan area. A *France Stratégie* report¹ stressed that the redrawing of regional boundaries reinforces the economic coherence of regions by reducing the number of departments that have more economic connections with a region outside of their own. However, the fiscal impact of bigger regions is still uncertain. While potential savings, linked to synergies and economies of scale for instance, could materialize only in the medium term, in the short term, however, mergers could even lead to higher operational costs through an upward harmonization of public agents salaries, for instance. In any event, fiscal impact should be limited given the small size of regions operational expenditures.

Actually, the main source of expected savings would come from the suppression of the so-called "general competence clause" for regions and departments following the NOTRe law. This clause was giving local governments the power to conduct any policy "of local interest" provided this was not the exclusive responsibility of other authorities. This was a cause of redundant exercise of powers, in particular in economic issues, as most local authorities implemented economic development strategies at their scales. Although economic development was a central responsibility of regions, it was not an exclusive one.

...but still far from their German or Spanish counterparts

The NOTRe act clarifies distribution of powers among local authorities. Regions' previous responsibilities are reinforced while they inherit new competences from departments.

Regions become sole responsible for economic development. Against this backdrop, regions retain the exclusive power to define aid schemes and to decide the granting of aids to enterprises on their territories. They have the responsibility for drafting Regional Economic Development Plans (SRDEII) dealing with internationalization support, real estate investment and innovation issues.

New regional map



Figure 1 Source: French government

Local taxation

EUR bn

	Cities	Departments	Regions	Total
Direct Contributions	50.1	20.4	4.7	75.2
Household tax	37.6	12.2		49.8
Housing tax	20.3			20.3
Property tax on buildings	16.3	12.2		28.5
Property tax on unbuilt lands	1.0			1.0
Company tax	12.5	8.2	4.7	25.4
Corporate property tax	6.9			6.9
Company value added contrib.	4.3	7.9	4.1	16.3
Network businesses tax	0.6	0.3	0.6	1.5
Commercial premises tax	0.7			0.7
Indirect Contributions	20.2	22.1	8.2	50.5
Urban tax	0.9	0.3	0.2	1.4
Waste removal tax	6.3			6.3
Registration fees	2.0	7.2		9.2
Energy related tax	1.5	7.2	4.4	13.1
Tax for public transport	7.0			7.0
Tax on insurance contracts		6.7		6.7
Vehicle registration tax			2.0	2.0
Contribution to vocational training			0.8	0.8
Tax on power line towers	0.2			0.2
Tourism tax	0.3			0.3
Others	2.0	0.7	0.8	3.5
Total taxes and duties	70.3	42.5	12.9	125.7

Table 1 Source: Ministère de l'Intérieur

¹C. Amabile., C.Bernard, A.Epaulard (2015), « Réforme territoriale et cohérence économique régionale », *France Stratégie*



Regions will also draft Regional Urban Development Plan (SRDAT) dealing with mobility, anti-pollution policies, energy, housing and waste management. Those plans already existed but the novelty is that other localities will now have to comply with these prescriptions when designing their policies.

Besides, regions will get new responsibilities, directly transferred from departments. On top of regional railway, vocational training, high schools and the management of aids to SME's, regions will take over the whole inter-urban mobility, including, as from 1 January 2017, non-urban transportation and school transportations. They will also ensure the management of airports and harbours. The transfer of responsibilities will come with additional financing: EUR 4bn a year has been promised to regions for transports. However, departments' budget for economic development – EUR 1.6bn – is unlikely to be passed to regions.

Overall, the Act III of decentralization reinforces the role of regions in the administrative organization, making them bigger and more powerful. Yet, regions' economic weight remains very light, disproportionate with their German or Spanish counterparts (see chart 2).

It is particularly dwarfed by municipalities which retain the lion share of local authorities' budget. Big cities –*métropole*– have seen their role strengthened in the Act III too. They have obtained a derogation allowing them to define their own guidance documents in case of disagreements with regions as regards the SRDEII. More generally, towns retain a general competence clause, giving them large rooms of manoeuvre when designing their local policies.

The latest Act, which aims at better defining the responsibilities of each local authority, is to be seen as a redistributing process between local governments rather than a new transfer of power outside the Central state control. In that sense, the objective to reduce the so-called administrative “millefeuille” fell short of expectations so far. The relocation of departments' responsibilities in regions and towns has not been as large as draft law prescribed. In particular, departments eventually keep the management of secondary schools and many responsibilities regarding transport, on top of their already large budgets for social policy.

The 6-13 December regional elections

Regional elections, to take place on 6 and 13 December, aim at appointing members of the 13 new mainland regional councils plus 2 overseas regional councils (Guadeloupe and La Réunion) for a 6-year mandate.

A complex voting system

Since 2003, electors vote for lists in a two-round, proportional ballot, including a majority premium. At the first round, if a list receives the absolute majority of the votes cast, it gets a premium equivalent to 25% of the regional council seats. The remaining seats are proportionally distributed among lists that received at least 5% of the ballot (including the winning list). If no list exceeds 50% of the vote cast at the first round, a second round is organized, opposing the qualified lists, that is to say lists that obtained at least 10% of the ballot.

■ Regional discrepancies

Regional expenditure as % of general government expenditures

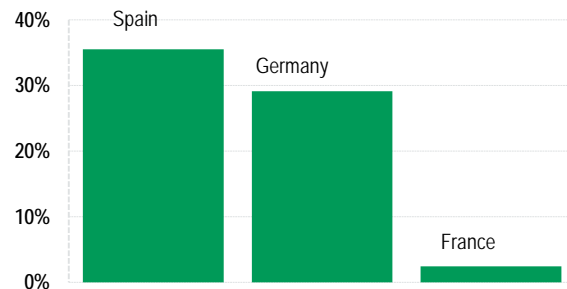


Figure 2 Source: Eurostat

Note that lists can be modified between the two rounds: qualified lists can merge with each other or with lists that obtained at least 5% of the votes. Lists withdrawal can also happen. As in the case of victory at the first round, the list coming first at the second round receives the 25% premium. Remaining seats are proportionally distributed among lists gathering at least 5% of the votes. Given the premium, the winning list can obtain an absolute majority with around 33% of the votes in the second round.

A divided Left bloc opposed to a united centre-right and a rising FN

Since 2004, left wing lists (under the leadership of the Parti Socialiste (PS)) largely dominate regional elections. In 2004, they won 20 of the 22 mainland regions (all but Alsace and Corse). In 2010, they managed to take Corse and had control of 21 mainland regions (all but Alsace).

Nevertheless, since PS victories at the Presidential and legislative elections in 2012, all local elections - generally difficult for governments in office - were won by right-wing lists (under the leadership of Les Républicains (LR), former UMP). This was the case for municipal elections in March 2014 and departmental elections earlier this year. Those elections were also marked by the breakthrough of the far-right Front National (FN) which won 14 municipalities -a record- and, although it did not gain any department, placed 62 department councilors.

Since 10 November, all lists are known. The left wing appears divided despite several PS attempts to close ranks, including an internal referendum. The social-liberal turn taken by the Socialist government created partitions in the PS ranks, but also within the larger Left bloc. The PS presents joint lists with its (small) closest ally, PRG, but fails everywhere to gather support from the two other big left wing parties: Europe Ecologie Les Verts (EELV) and Front de Gauche (FG). In four regions, joint lists were formed by EELV and FG (or one of its components).

To the contrary, Les Républicains managed to submit joint lists with Centrist parties (Modem and UDI) in all mainland regions except one, where the Modem has a separate list. For its parts,



the FN present joint lists in every mainland regions with Rassemblement Bleu Marine (RBM), a coalition of Nationalist parties led by the FN.

Given their size and perimeter of action, cities and departments often benefit from a good image - the latter being notably in charge of solidarity policies. To the contrary, regions' role, focused on SMEs and relation with other local entities, is generally perceived as vague and poorly understood by the public. This probably explains why the voter turnout in regional elections is historically low. In the 2008 1st round of municipal and departmental elections participation rates were respectively 66.5% and 64.9%. For 2010 regional elections however, the electoral turnout was only 46.3% at the first round, increasing to 51.2% at the decisive round. High abstention rates are generally a disadvantage for mainstream parties. Another consequence of regions' poor perception is that political campaign is dominated by national matters, including themes (insecurity, immigration, unemployment) that have nothing to do with regions' responsibilities. This used to penalize incumbent government too.

As to whether or not recent terrorist attacks that took place in Paris will have an impact on electorate's choices, surveys tend to indicate that it will be quite small. In a TNS-Sofres-OnePoint poll conducted from 20 to 23 November, 58% of people surveyed (people that intends to vote) said that recent attacks will have no impact on their vote, 35% responded that it confirmed their choice, and only 7% admitted having changed their minds.

However, Paris attacks could induce those who planned to abstain to eventually take part in the vote, therefore increasing the electorate turnout. This, in turn, could benefit to PS-lists if recent polls, indicating a massive public support to government's reaction after the attacks, are any guide.

Opinion Polls to be taken carefully

In table 2 we present the latest opinion polls in mainland regions. We show the results for all lists expected to win at least 5% of the vote cast, that is to say lists that will have the possibility to merge in the run-up to the second round.

According to polls, Les Republicains-led lists are expected to come first in 9 out of the 13 mainland regions, ahead of FN-led lists, leaders in 3 regions. In two regions, though, LR lists are *ex aequo* with a FN list (Pays de la Loire) or a PS list (Bretagne). Corse would be the only region to see the victory of a local party-list.

Polls results need to be taken very carefully though. First, the proportion of hesitant persons is very high, reaching 35% of surveyed. Second, the outcome of the decisive second round will largely depend on strategies implemented between the two rounds. Mergers among lists will be key. Some simple withdraw can also happen. In the latest 2010 regional elections, PS, EELV and FG lists merged in 20 of the 22 mainland regions. This permitted to PS-led lists to win 8 regions where they came second after the 1st round.

■ Opinion polls in mainland regions (ex Corse)

	LR-UDI- MoDem	FN	PS- PRG	EELV- led lists	FG- led lists	EELV- FG	MoDem
Alsace-Champ.-Ardene-Lorraine	32%	30%	19%	6%	7%		
Auvergne-Rhône-Alpes	32%	27%	21%	7%	6%		
Aquit.-Limousin-Poitou-Charentes	32%	22%	26%	6%	7%		
Bourgogne-Franche-Comté	31%	26%	19%	5%	8%		6%
Bretagne	29%	20%	29%			6%	
Centre - Val de Loire	34%	27%	20%	5%	9%		
Ile de France	33%	22%	23%	7%	7%		
Lang. Roussillon-Midi Pyr.	21%	32%	23%			11%	
Nord Pas de Calais-Picardie	24%	42%	17%	6%	5%		
Normandie	31%	30%	21%	5%	9%		
Pays de la Loire	28%	28%	22%			12%	
Provence Alpes Côtes d'Azur	28%	42%	16%			8%	

Table 2 Source: Leading poll institutes

It remains to be seen whether such PS-led mergers will occur again this time, given the deep division inside the Left bloc. Nonetheless, widespread unions are likely in the case where such alliances could allow the Left bloc to win the second round. This looks the case in Bretagne, Aquitaine-Limousin-Poitou-Charentes and Languedoc-Roussillon-Midi-Pyrénées.

To the contrary, LR and centrists, which never merged when they got the opportunity in 2010, present joint-list from the first round this time. While this probably explains the high projected score for LR-led lists in the first round this leaves little rooms of maneuver for mergers in the run-up to the second round.

Finally the cases of Nord-Pas-de-Calais and Provence-Alpes-Côtes d'Azur (PACA), where the FN is projected to be the clear winner of the first round, are unprecedented and therefore hardly predictable. Whether the PS-list remains in course or not will likely shape the outcome. While a simple withdraw is possible, it should crucially depend on whether or not PS and Les Républicains find a common ground to merge their lists.

The regional elections outcomes: limited implications nationwide

Final results of regional elections, to be known on December 13, are much less clear-cut than opinion polls about the 1st round suggest.

Strategies adopted by qualified lists between the two rounds will be crucial. They will communicate on this soon after the first round. The cases of Nord-Pas-de-Calais and PACA where the FN could win provided a "Front Républicain" is not decided will be particularly scrutinized.

If important uncertainty remains, it is the first time since regional elections are organized (1985) that a Front National list is in position to govern a regional council. While this clearly reflects a shift in French politics, the concrete consequences of such an outcome needs to be put in perspective though.



Despite 30 years of decentralization, France remains a highly centralized State. In the latest Act, which aims at better defining the responsibilities of each local authority, regions appear one of the big winners: their size increased materially and their responsibilities were extended. Yet regions' budget remains small, and largely dependent on State grants, while local taxation actually leaves very little fiscal autonomy. In terms of economic and political weights, French regions, often described as local desks of the Central state, are light years far from their German or Spanish counterparts. One or two FN-led regions should therefore have very limited, if not meaningless, implications on France's economic orientation.

Another question is whether FN increasing strength will have implications on the government political orientation, especially in the run-up to Presidential elections in spring 2017. One could say that recent tragic events had already translated into a shift in government's policy on security matters. On the economic front, the government is unlikely to deviate from its social liberal orientation one year and a half away from next election, especially as reforms start to bear fruits. On the contrary, continuing reforms could be an argument to gain support from the center where political gains seem possible.

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