Geographical inequalities and sub-national funding in France

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This is a multi-partner project led by the University of Birmingham.

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Summary

The aim of this report is to draw out lessons for England, and the UK more broadly, in terms of how funding mechanisms can be used to better address spatial inequalities. The review is based on desk research of academic and policy publications, as well as 11 interviews conducted with French academics and policy experts in summer-winter 2024.[1]

France was chosen as a case study for four main reasons:

a) It provides insights into the experiences of a **centralised state undergoing substantial decentralisation reforms**.[2] Over recent decades, the French government has implemented a series of institutional reforms that have become increasingly frequent (Demazière et al., 2022; Gustedt et al., 2022). These reforms have involved merging and enlarging the regions, redefining the competences of subnational government and establishing intermunicipal structures. Such policies aim to achieve economies of scale, rationalise operations and address challenges stemming from a large number of municipalities. This review discusses how the reforms have been criticised on several angles including: taking insufficient account of regional identity, favouring large métropoles and leaving behind rural territories, and not achieving intended aims related to economies of scale. Key findings include that reducing the number of institutions does not necessarily reduce complexity if the complexity of institutional layers is not also addressed and that regions that are too big can prevent specialisation and lead to left behind places becoming further alienated. Hence there is a need to consider both institutional and lived territories.

b) Selecting France offers an opportunity to understand experiences in a country which operates a **redistributive funding model**.

c) France is a pertinent comparison for the UK in terms of learning from policies to address geographical inequalities because of the **existence of initiatives to revitalise town centres and reinvigorate 'forgotten territories'**. Such policies are similar to towns centred policies introduced over recent years in England.

d) The report aims to **improve understanding of the greater discretion afforded to sub-national governmental entities in taxation and expenditure** in France compared with what is available in the UK. Our analysis indicates **how equalisation mechanisms are important in supporting local authorities in France that face significant expenses and insufficient resources, thus reducing territorial inequalities.** Experiences in France suggest that equalisation measures can be complicated to operate and deduction of revenues from some local authorities can cause resentment. The volume and ease of operation of equalisation mechanisms are therefore important. In constrained financial

[1] The author would like to thank all of the interviewees who participated in the research for kindly sharing their insights. In addition, is grateful to Andy Pike, Anne Green, Charlotte Hoole, Jonathan Davies and Sanne Velthuis for their valuable feedback on this case study.

[2] Alongside the Nordic countries, Switzerland, and Liechtenstein, France is distinctive in the high degree of local autonomy for municipalities according to the Local Autonomy Index (LAI). France's LAI score 2015-2020 was 75.63. Index values over 70 indicated a high degree of autonomy (Ladner et al, 2021).

contexts Vertical equalisation grants may be most effective if they are targeted at a small number of the most disadvantaged local authorities. s to try to distribute growth more fairly and avoid funding being shared too thinly across beneficiaries.

The study received full ethical approval from the University of Birmingham. Interviews were conducted primarily in French with quotes translated into English by the author.

1. Context

France is a centralised unitary republican state. The Parliament consists of two chambers: the National Assembly and the Senate. The Senate indirectly represents the interests of sub-national authorities, as it is elected by an electoral body made up of representatives from the regions, departments, and municipalities (European Committee of the Regions, n.d., a). Among OECD countries, France is categorised as "*moderately decentralised*" (OECD, 2016, p.2).

This section offers a brief overview of geographical characteristics and social problems in France. Section 2 presents a more in-depth analysis of geographical inequalities in France and national policy on addressing geographical inequalities.

The total population of France (68,170,230) is very similar to that of the UK (68,350,000) (World Bank, 2023). However, France' surface area of (550,000 km^2) is over twice that of the UK (241,930km^2) (World Bank, 2021). Contrasts exist between sparsely populated and densely populated areas in France. As argued by Estebe (2015, cited in Evrard and Blondel, 2019), to understand urban development policy choices and constraints in France, it is important to note that France is sparsely populated, yet inhabitants are spread throughout the entire territory, and that the country's, large cities are relatively weak, not due to the dominance of Paris, but rather as a result of the economic weight of medium-sized and smaller cities. An interviewee argued that this point is based on work in the 1990s which found that compared to other European countries France had a big gap economically between hyper dynamic metropolises and second rank cities (int-5). 80% of rural municipalities experienced growth in population between 1999 and 2015 (Bourdin and Torre, 2021, p.1994).

Social problems in France are accumulating across various regions, declining small and medium sized towns and cities, and disadvantaged areas. This decline, as perceived by the public, has fuelled frustration and created a fertile ground for the rise of the Far Right (Gustedt et al, 2022). Such discontent was vividly demonstrated by the Yellow Vests (*gilets jaunes*) protests which started in 2018 and exposed deep-seated socio-economic disparities. Initially sparked by a fuel tax increase, the protests reflected broader issues of exclusion and neglect felt by residents, particularly those distanced from public and private services and feeling overlooked by the government (Le Bras and Warnant, 2021). Evidence suggests protestors were quite politically ambivalent. According to an academic survey conducted in 2018 33% of *gilets jaunes* reported that they were apolitical. Among those who ranked themselves on the political spectrum, 15% cited being on the far left, 5.4% on the far right; 42.6% on the left, 12.7% on the right, and 6% in the centre (Verso, 2018). In recent years, there has been a notable overlap between areas with concentrated levels of poverty and those where the far-right *Rassemblement national* party

(formerly the *Front National*) has received significant support. For example, in the first round of the 2022 presidential election Le Pen, the Rassemblement national candidate, performed notably better than President Macron in economically disadvantaged areas (with an average poverty rate of 16%). Macron led in areas with a lower poverty rate (12.7%) (Thomas, 2022).

Local, regional and national stakeholders in France are faced with similar grand challenges as in the UK, including reducing CO_2 emissions, tackling housing shortages and addressing land use challenges (Coldefy and Lévy, 2024). New challenges for sustainable development include mobility (particularly related to carbon-free mobility) and digitalisation (Gustedt et al, 2022).

This paper is structured as follows. First, a summary of geographical inequalities in France and national policy on geographical inequalities and regional development is provided. This is followed by a section discussing governance in France, offering an overview of governance structures, outlining key institutional reforms and examining their strengths and weaknesses. Thirdly, the funding system in France is analysed. Finally, an assessment section reflects across the case study to identify key learning points for the UK from a governance and funding perspective.

2. Debates about geographical inequalities

Geographical inequalities

Research shows that while France possesses one of the most substantial redistributive systems in the European Union, the country "*is crisscrossed by multiple fracture lines at every scale*" with spatial inequalities having become "*flagrant*" (Le Bras and Warnant, 2021 p.2). Following two decades of decreasing inequalities in the 1970s and 1980s, disparities in living standards have been increasing since the 1990s.

Key challenges include the complexity of the social and economic differences being experienced at different scales both within and across territories. It is impossible to categorise all areas designated as 'metropolises,' 'small towns,' or 'isolated rural areas' into the same groups, given the considerable variation in their development paths and the profiles of their residents (Berroir et al, 2019, cited in Demazière and Sykes, 2021). Le Bras and Warnant (2021) argue that, at the regional level, France comprises vast areas experiencing significant inequalities, while other regions are more "egalitarian" (p.3).

The following section provides a brief overview of population and economic trends before discussing social problems relating to levels of inequality and inequalities between metropolitan and non-metropolitan areas.

Like in the UK, productivity and wealth are clustered in the Île-de-France (Paris) region. In the latest 2022 figures, London was the UK region with the highest productivity level (with an output per hour 26.2% higher than the UK average) (ONS, 2024). GDP per resident (€63,256) was 46.7% higher in the Île-de-France region than the metropolitan French average (€39,323) (INSEE, 2024a).

French large cities with over 200,000 inhabitants, excluding Paris, are significant centres for population and employment, contributing notably to the country's demographic and economic

growth in recent years. One interviewee argued that policies from the mid-1950s to encourage large firms to move out of Paris, together with the development of the TGV network mean that "*the division between Paris and the rest of France is less important than previously*" (int-8).

Differences in population and productivity rates exist though between the large cities in France. Those located in the west and south have experienced the most substantial growth, while cities in the east and north have seen slower growth, although still outpacing their regional averages (Demazière and Sykes, 2021). The national Territorial Observatory (2017) argues that French regions can be categorised into four groups in terms of their population and employment trends. The Atlantic and Mediterranean coastal regions, together with the Rhône Valley in south-east France, are distinguished by their demographic and economic vitality. Whilst the cost of living is high along the Mediterranean coast (particularly in Provence-Alpes-Côte d'Azur), the two most southern regions, Provence-Alpes-Côte d'Azur and Occitanie have the third and fifth highest GDP rates of all regions in France (INSEE, n.d.). Occitanie also experienced the highest population growth of any mainland French region (excluding Corsica) between 2014 and 2020 (INSEE, 2022a). By contrast, north-eastern France has been particularly impacted by deindustrialisation. A central region has experienced stagnant demographics because of a significantly ageing population. The Île-de-France region, which includes Paris, accounts for approximately 23% of the nation's jobs and 18% of its population, generating approximately 30% of France's GDP (Demazière and Sykes, 2021, pp.36-37; INSEE, 2022b, 2023, 2024b). [3]

Recent territorial reforms, principally the reduction in the number of regions, have contributed to narrowing demographic and wealth disparities among regions. Data from the French national statistics agency indicates that "*excluding Île-de-France and Corsica (where the differences are too extreme), the range [in terms of GDP] around the average has gone from +15.6% to −13.9% to only +11.7% to −8.4%".* However, it has been argued that the effect is "*for the moment, purely visual*" (Demazière and Sykes, 2021, p.1991). One interviewee suggested that whilst although because of the reforms the regions "*might be more balanced in terms of different indicators, it's not a response to the internal inequalities within a region*" (int-8). Rapidly growing urban areas face challenges such as congestion and marked inequalities, leading to important issues related to social and territorial cohesion (Demazière and Sykes, 2021). Strong suburban and racial dimensions are a feature. Le Bras and Warnant (2021) argue that "*social problems*[4] *are concentrated in the north-east above a line between Caen and Belfort, in a 100 km belt along the Mediterranean shore, with a peak in the western part (the Languedoc region) and in the Garonne valley, from Toulouse to the ocean*" (p.6).

Our interviews and evidence review have highlighted **particular concerns about the divide between large conurbations and "non-polarised" rural areas, and the contrast between densely populated rural regions and those facing population decline.** Debates over recent decades in France have focused on the extent of social and spatial inequalities' (*inégalités sociales et spatiales*) and territorial disparities (*disparités territoriales*). Since 2010, there has been increasing focus on "*the language and spatial imaginary of 'peripheral France'*" (Pike et al,

[3] Figures exclude Mayotte.

[4] Based on analysis showing degree of inequality at municipal level in terms of unemployment, poor qualifications among young people, level of poverty, proportion of single-parent families and the Gini coefficient on disposable income.

2024, p.1173). Guilluy, in particular, shifted the focus of the term from traditional debates about centralisation, underdevelopment, and the relationship between Paris and the rest of France to highlight the growing divide between thriving, globalised cities with progressive values and declining medium-sized towns and rural areas that are increasingly leaning towards right-wing politics (Béal et al, 2021, cited in Pike et al, 2024). The gap between areas with and without a métropole[5] (or metropolis) has widened in recent years, driven by state policies since the 1980s designed to enhance the influence of métropoles. Since the 1980s, the development of high-speed TGV train links has improved access to metropolitan areas and supported the growth of business districts. This process has been further driven by fiscal policies and governance reforms, including the establishment of intermunicipal bodies. As one interviewee noted, these changes and the lack of parallel policies in rural areas have "*suddenly created a fairly large gap*" between métropoles and their surrounding areas, particularly rural regions (int-3).

Recent years have also seen increasing public debate about the need for urban renewal in small and medium-sized towns. This links to concerns about town centres being diminished by shifts in commerce, a decrease in service availability, and changes in lifestyles.

National policy on geographical inequalities and regional development

This section summarises key policies addressing geographical inequalities and promoting regional development in France.

Regional development policy at the national scale has a strong focus on equalitywithin and between territories. "*The principal of equality is deeply anchored in the way territory is conceived and administered"* (Evrard, and Blondel, 2019, p.8). This policy dates back to the 1950s and 1960s when concerns emerged about highly uneven development in the context of strong economic growth in Paris and a few large cities in the economic boom of the Thirty Glorious Years. Industrial decentralisation policy from the mid-1950s was designed to encourage companies to decentralise new factories from Paris to the least productive in western and southern France. Regions in northern and eastern France also benefited from economic development plans designed by the French National Planning Board (CGP) to stimulate growth (Brennetot, 2021). However, Wendeln (2014) suggests the impact of territorial development programmes was limited "*Far from evenly spreading growth across the country, national programs corrected certain inequalities while accepting and even promoting others – most notably reinforcing the gap between the France's largest cities and their surrounding regions*" (p.3). Brennetot (2021) describes how policy increasingly sought to promote spatial planning across regions as well as supporting growth and competitiveness in the richest regions.

Today, **the French state continues to emphasise the importance of addressing geographical inequalities**. For example, in 2019 President Macron established the National Agency for Territorial Cohesion (*Agence nationale de la cohésion des territoires*, ANCT) to facilitate local authorities' access to the resources required to bring projects to fruition. Support provided includes technical and financial engineering, partnership development andsubsidies). The

[5] See the discussion of métropoles in the governance section below for more in-depth analysis.

Agency aims to develop innovative support programmes to respond, in conjunction with elected officials, to new challenges and strengthen territorial cohesion in terms of digital, ecological and demographic transitions (République française, n.d., a). For example, the Agency is responsible for implementing the Small Towns of Tomorrow programme discussed below. A partnership agreement between the state and the regions signed in 2020, identified three principal regional development challenges: supporting businesses most affected by the crisis, enhancing regional resilience, and promoting a true ecological and energy transition towards a low-carbon economy. Such partnerships can be considered more formal and structured than the informal and negotiated devolution deals agreed in England over recent years. Nonetheless, an interviewee suggested that addressing geographical inequalities is "*rarely applied in a complete way*" (int-3).

Unlike the UK, France, as a member of the EU, has national policy in France that is also strongly shaped by European Commission policy and funding. A partnership agreement on the strategic guidelines and implementation of the 2021-2027 European Regional Development Fund, European Social Fund+, the Just Transition Fund and the European Maritime, Fisheries and Agriculture Fund which was adopted by the European Commission in 2022. The eleven thematic objectives of the 2014-2020 cohesion policy have been consolidated into five strategic objectives that maintain a focus on the themes from 2014-2020 but include an enhanced emphasis on territorial development (OECD, 2023). The Agreement lays down cohesion policy investment worth €18.4bn in funding over the 2021-2027 period and is designed to promote economic, social and territorial cohesion, as well as the green and digital transition. As part of the increasing territorial element in cohesion policy since 2010 (Bourdin and Torre, 2021), the funding aims to support the competitiveness of the French regions, as well as to address territorial disparities between rural and urban areas, particularly in access to healthcare and to social services.

Key policy coordination tools at the national level are State-Region Planning Contracts (CPER, *Contrat de plan État-région*) and State-Region Inter-Regional Plan Contracts (Les contrats de plan interrégionaux État-Régions**, CPIER)** which outline the actions that the state and regional councils agree to implement and co-finance over a period of six to seven years to support regional planning and development. Since 2020, the Directorate General for Local Authorities (DGCL) has overseen the inter-ministerial and regional management of these contracts. Negotiations were conducted between the French government, represented by the regional prefect, and each regional council (OECD, 2023). In operation since 1982, the State-Region Planning Contracts serve as important instruments for regional policy planning, governance, and coordination across government levels, particularly in infrastructure investment. The contracts encompass a wide range of themes, follow a cross-sectoral approach, and apply territorial strategies across various policy domains, including industry, the environment, and rural development. Their primary goal is to fund projects that stimulate sub-national investment. Projects focus on six key areas of future-oriented investment: i) multimodal mobility; ii) higher education, research and innovation; iii) ecological and energy transition; iv) digital; v) innovation, sectors of the future and the factory of the future; and vi) territories. In addition, employment is a cross-cutting priority (OECD, n.d., a).

Urban policy in France has traditionally concentrated on revitalising disadvantaged neighbourhoods in cities of all sizes. This approach is formalised through city contracts

focused on urban, social, and economic development, which are attached to state-region agreements (OECD, 2019).

The last decade has seen an **increased policy focus on supporting small and medium-sized towns** located outside of *métropoles* by bringing back public services. This marks a shift from a previous focus on developing clusters in metropolitan areas. This change can be considered to be the result of both lobbying on behalf of medium-sized towns, *the gilets jaunes* protests and, according to an interviewee, Macron's desire, in the context of rising support for the far right, to prioritise such policies as a means of attracting votes outside of his electoral base in metropolitan areas.

Different policy frameworks exist targeting urban and rural areas as shown in Figure 1 below:

Frame work	Programme Name	Aim	Details
Urban	City Policy and City Contracts (*politique de la ville*) (National Agency for Territorial Cohesion – ANCT).	To **reduce development gaps within cities** through restoring republican equality in the poorest neighbourhoods and improving residents' living conditions.	In 2024 **€636 million** will be dedicated to this policy.
	Small Towns of Tomorrow (*petites villes de demain*) (ANCT)	To **improve the quality of life in small cities and** surrounding **rural areas**, by strengthening the resources of cities and their intermunicipalities with fewer than 20,000 inhabitants to build and implement territorial projects.	Six-year programme launched in 2020**. €3 billion** provisionally allocated to the programme over this period.
	Town Centre Plan (*Action coeur de ville*) (ANCT)	To restore attractiveness and dynamism to the centres of **medium-sized towns.**	Introduced in 2018, the programme targets 245 medium-sized towns. **€5 billion budget** over five years funded by state and partners.
	Energy Recovery and Transition Contracts (*contrats de relance et de transition écologique*) (ANCT). Renamed Contracts for Successful Ecological Transition (*Contrats pour la réussite de la transition écologique)* in 2024.	To **facilitate economic recovery, ecological transition and territorial cohesion.**	Launched in 2020 and running to 2023. Each contract concluded for 6 years between the state and the local authorities. Targets 853 areas.

Urban and rural policy	Industrial Territories (*territories industrielles*)	To establish a cooperative framework to **support industry outside of metropolitan areas,** in small and medium-sized towns and in rural areas. To reconcile industrial policy, focused on innovation and sector strategies, and territorial cohesion objectives by supporting local reindustrialisation projects through promoting priority access for companies and communities to state services and financing.	Phase 1: 2018-2022. €2.8bn in funding from state, regions and operators. Phase 2: 2023-2027.
Rural policy	Rural development contracts (*contrats de ruralité*)	To **revitalise rural areas** through promoting social cohesion, economic attractiveness, access to public services and digital technologies, mobility solutions, and the ecological and energy transition.	Covered 2017-2020. Gradually replaced by energy recovery and transition contracts. In 2019, 489 rural contracts existed. Benefited from **€423.8 million of funding**, all state credits combined.
	National Rural Agenda (*l'agenda rural*)	To **promote the development of rural areas** and improve residents' daily lives.	Interministerial action plan developed from 2019, includes 181 measures.
	France Rural Plan (*Plan France ruralités*)	To support territorial equity by providing tailored support to the needs of **rural areas.**	Launched in 2023 as continuation of the Rural Agenda. Key themes: health, mobility, housing, equal opportunities.

Figure 1: key urban and rural economic development policies in France. Adapted from: OECD (2023) with supplementary information from Sénat (2024), République française (n.d., b, c, d, e), Préfet de la Vendée (n.d.), République française et Agence nationale de la cohésion des territoires (n.d.) and République française et Collectivités locales (n.d., a), Ministère de l'Economie, des Finances, et de la souveraineté numérique et la Direction générale des Entreprises (2024) et Cour des comptes (2024a).

The increased policy focus on small and medium-sized towns has been welcomed by academics in terms of the funding provided and how the policies create a framework for local integrated approaches with workshops, exchanges and networking between local actors. However, critics argue that policies are insufficient to address multi-scalar challenges (Dehne et al, 2022). From a funding perspective, the policies are interesting as the French government has sought to reduce the amount of funding it has provided through securing additional funding from partners such as the National Housing Agency (Anah), the Territorial Bank (Banque des territoires) and Cerema, the French public agency for developing public expertise in urban planning, regional cohesion and ecological and energy transition.

3. Governance – history and change

This section outlines key governance structures in France and examines recent institutional reforms. It also reviews the strengths and weaknesses of these reforms, followed by a summary of key proposals for future changes.

Overview of governance structures

France is a **decentralised republic**, where, in line with the 'principle of subsidiarity' local authorities are meant to exercise powers that are most effectively carried out at their level of jurisdiction (OECD, 2019).

As illustrated in Figure 2, France has **three levels of sub-national governance**: regions (*régions*), departments (*départements*), and municipalities (*communes*). These entities do not possess legislative authority but "*exercise their functions by means of regulations for some fields and through the execution of their budget*" (European Committee of the Regions, n.d., a). **In addition, intermunicipal bodies (EPCIs) bring together groups of municipalities** to cooperate on development projects and exercise powers on behalf of municipalities. Five different types of EPCIs exist with differing levels of powers; métropoles benefit from the widest range of powers. Each French region (except Corsica) has at least one métropole. Whilst members of intermunicipal bodies are elected at the municipal level, the intermunicipal level "*must be considered as an important level of French territorial authority*" (Demazière, 2021, p.2041). Given their role in local public policies, intermunicipal bodies are often thought to constitute a fourth tier of subnational government (alongside municipalities, departments and regions) in French sub-national government after the regions and departments (Demazière and Sykes, 2020).

Level	Number (in metropolitan France)	Overview
National	**1**	• Responsible for defining and implementing the nation's policy. • Has exclusive responsibility for matters relating to national sovereignty (defence, foreign affairs, justice and security)
Regional	**13** regions	• Established in 1972 • Prior to the territorial reform begun in 2014, France had 22 regions. • Responsible for regional transport, departmental transport, education (sixth-form schools), vocational training and apprenticeships, culture, regional planning, economic development, environment and scientific development.

Intermediate	**94** departments	• Responsible for departmental transport, education (in particular secondary schools), vocational training in the field of music, dance and drama, inclusion and social welfare, public health, planning in cooperation with regions, economic development (complementary to regions), environment, rural development and agriculture aid, tourism and business development.
Intermunicipal	**1,231** intermunicipal bodies (Public intercommunal cooperation establishments, EPCIs)	• A form of cooperation between municipalities which can come together to: 1. jointly manage public equipment or services (household waste collection, sanitation, urban transport, etc.); 2. develop economic development, planning or urban planning projects on a scale larger than that of the municipality. • Five types exist with various levels of responsibilities. The status of *métropoles* is reserved for functional urban areas with over 400,000 inhabitants and is the form of EPCIs with the greatest powers. In January 2023, there were 21 *métropoles*. Métropoles may exercise, by agreement, powers falling within the remit of the department or region (e.g. the allocation of aid under the Housing Solidarity Fund). • Established from 1999 onwards they play an increasing role as public investors.
Municipal	**34,965** municipalities (*communes*)	• Responsible for municipal transport, culture (libraries, museums, archives), education (primary schools), public health, economic development (complementary to regions), environment and housing.

Figure 2: French administrative levels

Source: European Committee of the Regions (n.d., a), Intercommunalités de France (2025), OECD (2023), République française et Collectivités locales. (n.d., b), OECD (n.d., b)

Traditionally a highly centralised state, France has evolved into a unitary state organised on a decentralised basis under the 1958 Constitution. Initially, it had two tiers of local government—departments and municipalities. Regions were established in 1972, and the decentralisation process began with the Defferre Acts of 1982-1983, which abolished state supervision of local authorities and transferred executive powers to elected regional and departmental councils. The Act entrusted the administration of regions, departments and municipalities to elected councils, with state powers transferred to local authorities. A territorial civil service was also created (Vie publique, 2022). The 2003 constitutional reform (and a 2004 law) further strengthened decentralisation, formally recognising regions, granting financial autonomy to local authorities,

and enabling local referenda. This reform also enshrined the financial autonomy of local authorities, in terms of both revenue and expenditure, and elevated equalisation to an objective with constitutional value. The Constitution provides that the resources of local authorities must necessarily include a tax component and stipulates that "*tax revenues and other own resources of local authorities represent, for each category of authorities, a determining share of all their resources*". Article 72 also provided that financial equalisation mechanisms exist to correct inequalities in resources. In 2004, additional powers were assigned to departments and regions (European Committee of the Regions, n.d., a).

Since the 1990s, **a series of public reports have criticised the complexity of the French institutional landscape,** arguing that France's multilevel governance and territorial fragmentation lead to high operational costs. This structure is often referred to as the "*millefeuille territorial*", a metaphor highlighting its bureaucratic, costly, and inefficient nature and indicating how administrative levels have accumulated over recent decades (Brennetot, 2021). An interviewee suggested that whilst the system aims to be very "*extensive*", "*from an operational point of view, it is difficult to translate into concrete actions and concrete policy*" (int-3). The large number of municipalities has been a source of continued friction (Paris and Gustedt, 2021). Coldefy and Levy (2024) have argued that municipalities or intermunicipal bodies are generally too small to deal with planning, transport, water, waste and economic challenges. They propose a new form of institutional arrangements based around commuter belts. A fragmentation parallel exists with the US local government system and problems of tiny tax bases and duplication of functions and services.

Key institutional reforms

In response to the 2004 reforms and in the context of austerity, since 2010, France has undergone significant territorial reforms, redefining subnational government levels and their competences. Two reforms are of particular significance:

1. **strengthening of municipal groupings** which led to the creation of a new category of intermunicipal bodies, the '*métropoles*' in large cities.
2. **an expansion of the size and capacities of the regions**

In response to the criticism of the large number of municipalities and "*the failure of all attempts to fuse municipalities*" including the 1971 Marcellin Act, a 2010 law required all municipalities to participate in intermunicipal cooperation by joining an EPCI (*Établissement Public de Coopération Intercommunale*, Public intermunicipal bodies) (Paris and Gustedt, 2021, p.28). Additionally, the law established a minimum population threshold of 5,000 inhabitants for an intermunicipal body and created a new form of intermunicipal bodies for municipal groupings of over 500,000 inhabitants, named *métropoles or* metropolises. Only one métropole was established (Nice where the Mayor was close to Nicolas Sarkozy, French President at the time).

A law passed in 2014, which became effective in 2016, saw the French state redraw regional boundaries, merging the 22 former administrative regions of metropolitan France into 13 new regions. Six regions remained unchanged, while in five instances, two regions merged, and in two

cases, three regions consolidated into one (Simoulin and Negrier). The reform aimed to achieve administrative simplification and economies of scale, enhance the competitiveness of the territories, reinforce the importance of territorial issues in public policy and extend decentralisation processes which began in the 1950s (Cole 2006; Cole and John 2012 cited in Bourdin and Torre, 2021). The theory of change behind merging the regions was that by enhancing the size of the regions, the regions would be able to better compete with comparable regions in Europe, and in turn achieve efficiency gains. An interviewee described the law as a "*political gesture*" designed to show the European Union that was France was taking measures to reduce public debt (int-4). The state initially sought to abolish the departments but abandoned this policy in the face of opposition from local elected officials and challenges redistributing the competences and financing of the departments to other institutions (Bourdin and Torre, 2021). The underlying logic of the regional reforms is that the region is the most appropriate scale of agglomeration in terms of 'what works' in addressing geographical inequality because regions have greater institutional legitimacy than the intermunicipal bodies – whichact more at the political scale – and span both urban and rural departments. One interviewee suggested that rural departments are likely to lack the scale and resources to drive economic growth alone.

The 2015 NOTRe (New Territorial Organisation of the Republic) law provided the regions with new powers, strengthening their role in economic development and transferring certain powers from the departments. Regions became responsible for supporting small and medium-sized enterprises and must present a Regional Plan for Economic Development, Innovation and Internationalisation (SRDEII), which sets regional guidelines for a five-year period. Regions are also now responsible for sustainable land use planning including drawing up a Plan for Planning, Sustainable Development and Territorial Equality (SRADDET) (Vie publique, 2015).

The 2014 MAPTAM law on the modernisation of public territorial action and metropolises also designated *métropoles* based on having over 400,000 inhabitants within a city-region of more than 650,000 inhabitants. In making the *métropoles* a legislative entity, this reform represented a break from previous policy, which had only encouraged municipalities to voluntarily transfer resources and competences (e.g. economic development, transport and housing) to an intermunicipal body (Demazière, 2021). Intermunicipal bodies were designed to "*create institutional tools able to pool local resources and provide more efficient public utilities (public transport, water and waste management, housing or cultural facilities)*" (Brennetot, 2021, p.820). Between 2010 and 2017, the number of intermunicipal bodies fell by 50% as they were effectively forced by the French state to merge as part of efforts to improve governance, efficiency, and service delivery at the local level. The percentage of the population served by an intermunicipal body rose from 89.1% to 100% (Demazière and Sykes, 2021; Demazière, 2021, p.2047). However, the makeup of municipalities within intermunicipal bodies was decided locally "*depending on the income of municipalities, links they already had with other municipalities, the wishes of elected officials*" (int-4).

The NOTRe law also further strengthened intermunicipal bodies, increasing the population threshold for intermunicipal cooperation to 15,000, prompting further mergers.

Strengths and weaknesses of institutional reforms

The new regional geographies, introduced as a result of these institutional reforms, have been subject to several criticisms, including the confused nature of their delineation. While some regions, such as Brittany, seem to have been assembled around a shared 'identity', others, such as the Hauts-de-France region, do not take appear to have taken 'identity' into account. This criticism has been particularly strong in Alsace, where it is argued "*The Grand Est has no consistent territorial identity as it incorporates three former regions that are totally different, including Alsace with one of the most striking regional identities in France*" (Pasquier, 2012, p. 315).

The reforms have also been denounced as contradictory, in that they promote both competition and equality between regions with the national state seeking to promote both growth and equality. Evidence suggests that reducing the number of regions or municipalities does not necessarily lead to a reduction in the complexity of France'sterritorial organisation. While the French state wishes to reduce the gaps between the regions and increase cohesion, this is in direct competition with their push for decentralisation which risks increasing territorial disparities (Bourdin and Torre, 2021).

The reforms have been seen as favouring existing large structures, and accused of leaving behind certain areas, with critics suggesting the reforms have benefitted métropoles and neglected rural territories. An interviewee argued that the reforms have enabled large métropoles, such as Toulouse and Lyon, to become 'capitals' of larger areas, and in turn, play a more important political role in negotiations with the national state but had less impact on smaller cities within large métropoles (int-3).

The primary aim of achieving economies of scale also does not appear to have been successful. Administrative costs and expenditure are higher amongst the seven merged regions than among the unmerged regions, due to the need to relocate staff and services (Bourdin and Torre, 2021). Further, while these reforms have increased the size of the regions, it has not provided them with increased finance or competences, in comparison to the German *Lander*, further demonstrating the lack of decentralisation and the reliance on the state.

Devolution of powers to territorial authorities, such as regions and departments, **has been challenging because authorities rarely have sufficient funding to realise their ambitions to address inequalities**. According to an interviewee, "*it's very hard for territorial authorities because they were transferred some capacities but not the corresponding budgets*" (int-8). The interviewee suggested that rather than there being a single optimum territorial scale for addressing geographical inequalities, having a budget of scale to the challenge is key.

The growth in the size of the French regions has impacted upon the population base, with scholars suggesting this has led to feelings of state withdrawal and distance between rural areas and decision-making centres. This physical distance between the population and their elected representatives, alongside the lack of consultation on the reforms, has led to feelings of separation between the population and decision makers. "*Many local elected representatives or officials are now more than two or three hours away from their regional capitals by road, and often much more by rail, and find it difficult to make their voices heard and to represent the people's*

interests. The remoteness, coupled with the reign of the metropolises, has undoubtedly contributed to the feeling of a new withdrawal of the State from peripheral or rural territories, considered as abandoned" (Bourdin and Torre, 2021, p.1990). This can be seen as connected to the sense of abandonment and isolation and feelings of political discontent experienced and expressed by the Yellow Vests protesters (Grossman, 2019 cited in Bourdin and Torre, 2021).

Accountability is also hindered by the complex governance system operating in France. "*The confusing distribution of powers between the State and the three levels of local and regional government weakens political accountability, undermines residents' identification with local and regional authorities and discourages them from becoming more involved in local politics and taking part in subnational elections*" (Rudkin, n,d., p.3). Intermunicipal bodies with their own taxation are administered by a deliberative body composed of delegates from member municipalities. Whilst citizens directly elect municipal councils and therefore mayors, this is not the case for metropolitan councils (Demazière et al, 2022).

The reforms have helped **clarify and differentiate the roles and responsibilities of sub-national institutions to some extent**. Interviewees noted that regions now have a clearer focus on the economy and planning, whilst departments concentrate more on social issues. Despite the significant expansion of territorial authorities' powers over the past decade, **regional authorities still sometimes lack the necessary authority to implement policies effectively.** For instance, responsibility for housing policy is often shared between regional authorities, departments, intermunicipal bodies and the state which can create a lack of clarity and coherence (int-3). The French government proposed abolishing the departments as part of the regional reforms but backtracked in the face of lobbying. An interviewee suggested the lack of clarity at present is the consequence of this half-implemented reform.

Despite criticisms of the reforms, they have **increased the status of the regions over recent years as regions have been prioritised over geographical scales such as the departments.** The reforms officially recognised the regions as one of the major organisations in the structure of the state, alongside the departments and municipalities. Prior to this, regions "*had been the least socially anchored territorial authorities due to their relatively recent creation in the 1980s*" (Perrin, 2021, p.1976).

Given their differing powers, one interviewee explained that the quality of relationships between regions, departments and intermunicipal bodies often depends on the willingness of elected members of regional and departmental councils. Brittany was cited as an example where co-operation functions well thanks to "*an alignment between the priorities the region [...], those of the department and even the intermunicipal bodies*" (int-4).

Intermunicipal cooperation has faced similar challenges around complexity and disparities. Lyon is one métropole where the integrated model has faced challenges due to opposition from local policymakers. Cooperation is more common in France between towns and small neighbouring local authorities, rather than between small and medium sized towns. Reforms of the intermunicipal administration (1995, 1999, 2016) which raised the role of towns as central to spatial planning were met with opposition from the periphery. The sharing of responsibilities between municipalities and intermunicipal bodies has also hindered implementation (Driant, 2009) as the area of the problem (the urban area) does not always

correspond to the area at which policy levers operate (the urban agglomeration and its fringes). For example, in the Town Centre Plan, the Mayor of the town centre and not the President of the intermunicipal body is responsible for leading activities even though the effects of the issues targeted reach well beyond the municipality's boundaries (Driant, 2009 and Delpirou, 2019a cited in Dehne et al, 2022; Dehne et al, 2022).

The growth of the métropoles has created separate tiers of decentralisation. While most cities have benefitted from the creation of métropoles, Paris, Lyon[6] and Marseille received bespoke arrangements, illustrating a complex set of relations between the state and certain local authorities. This is an example of the principle of territorial differentiation in action.

In reality, **metropolitan governance is complex, with Lille acting as a prime example**. The area has many institutional and functional levels, including the municipalities of Greater Lille, the European Metropolis of Lille (Métropole européene de Lille, MEL), the Eurometropolis, and the French, Walloon and Flemish inter municipal bodies within it, Greater Lille, and the metropolitan region (Demazière et al, 2021). Following the MAPTAM Act in 2014 and the replacement of the Urban Community with the European Metropolis of Lille, the MEL gained wider competences (for example in relation to social urban development and the resumption of responsibility for the department roads). Some small municipalities were legally required to join the MEL, which by 2020, included 95 municipalities and 1.17 million residents. Lille, the central city, has nearly 233,000 residents, representing almost 20% of the population. The influence of larger cities like Lille, Roubaix, and Tourcoing is weakened by the political fragmentation and the prominence of rural municipalities that control future development land. These tensions have led to interest in reforming the system by following the example of Lyon to introduce the direct election of the metropolitan councils to enhance democratic processes.[7] Adopting such an approach would enable political groupings to present their visions to the electorate and has been cited as a way to reduce post-election negotiations between parties, which could be considered to compromise democracy. Lille faces challenges as the leading urban area in Hauts-de-France, expected to strengthen the region economically. Cooperation with other municipalities can be difficult due to accusations of "*metropolitan arrogance*." A 2007 effort to create a broader metropolitan region (*Aire Métropolitaine de Lille*) failed due to a lack of political will. In 2018 Lille signed a cooperation agreement with Côte d'Opale and Dunkerque, but its future impact remains uncertain (Demazière et al, 2021). There have also been instances of policy discord between the MEL and the Northern Department (Département du Nord) within which it fits. For example, in 2022 the

[6] The Lyon metropolitan area is a community with special status (as provided for the Constitution), created in place of the urban community of Lyon (an intermunicipal body) and the Rhône department since 2015, following the MAPTAM law. Political consensus locally has enabled it to operate as a hybrid structure between an intermunicipality with its own tax system and a department, exercising both the powers assigned to departmental councils and those reserved for metropolitan areas (Vie publique, 2024a). The *Métropole de Lyon* does not include all its functional urban region though due to tensions between local political elites regarding the foundation of a new institution (Demazière et al, 2021).

[7] Lyon is the only French *métropole* with a council elected by direct universal suffrage (since 2020). Other *métropoles* (a form of intermunicipal body) with their own tax system are administered by a deliberative body composed of delegates from member municipalities. Community councillors are now elected at the same time as municipal councillors rather than being appointed by municipal councils, as previously (Vie publique, 2024b).

MEL introduced free public transport for residents under the age of 18. However, transport in the urban fringes outside the boundaries of the MEL is managed by the Northern Department and agreement has not been reached on who would be responsible for covering the costs of extending the policy to young people in the wider Department. The Regional Authority must consider the MEL for its own planning documents.

The MAPTAM Act of 2014 offers another example of the growth of the *métropole* and **the blurring of administrative layers, particularly between the role of the regions and the *métropoles*.** While the Act enshrined the competences of the *métropoles*, replacing those of the urban communities they replaced, it also delineated a way for *métropoles* to extend their own competences to gain those previously carried out by the department, region, or the national government (Demazière et al, 2021). To assume powers previously held by a higher tier of government, métropoles need to liaise with the region/departments. For example, regions as leaders in economic development are able to pay direct aid to businesses. If *métropoles* want to establish similar systems, they are required to obtain delegation from the regional level. Fluid technical and political communication along with mutual trust has supported strong partnership working between the Region of Brittany and the Métropoles of Rennes and Brest. Effective partnership working enabled Brest Métropole to obtain such an agreement, with the Region providing the Métropole with advice on how to launch a project call around successful economic transitions (Objectifs Métropoles de France, 2021).

There has also been growth in metropolitan poles (*pôles métropolitains*), which, unlike the *métropoles,* exist as a flexible form of governance not adhering to the principles of exclusivity of competence or territorial continuity, and can bring together many cities, which are not geographically connected, to solve common problems. Following the MAPTAM Act partners in metropolitan poles can include departments, regions, universities, harbours, economic development agents, tourist agents, chambers of trade and industry, and urban planning agents. They bring together public intermunicipal bodies ranging in number from two (for example, in Nîmes) to up to 20 (for example, in Caen and Normandy). This institutional form is valued by partners in terms of offering a "*breath of fresh air*", through creating greater space for flexibility and experimentation (Vanier, 2017 cited in Demazière et al, 2021). Many métropoles are a member of at least one metropolitan pole, so they offer a complementary rather than competing model. Despite this, the poles tend to be weak structures that initiate action and provide value through driving collaboration and cooperation (Demazière et al, 2021).

To summarise this section has illustrated the following key points in terms of the strengths and weaknesses of recent institutional reforms in France:

a) The French institutional landscape is **complex** despite recent reforms designed to reduce confusion. Reducing the number of regions or municipalities has not automatically resulted in a reduction in the complexity of the French territorial organisation.

b) The 2015 **regional reforms have been criticised on several angles** including: taking insufficient account of regional identity, favouring large métropoles and leaving behind rural territories and not achieving intended aims related to economies of scale.

c) The **regional scale has been privileged over the departmental scale**. Recent reforms have successfully supported this.

d) Despite gaining new powers, regional authorities have often struggled to realise their ambitions to address inequalities due to **insufficient funding and overlapping powers and responsibilities between institutional tiers.**

4. Funding systems issues

This section of the report explores funding systems for addressing regional inequalities in France. Firstly, the context in which funding is allocated and delivered in France is discussed. Secondly, funding mechanisms in operation are analysed. In particular, emphasis is placed on 1) grant funding and fiscal equalisation mechanisms 2) state-local authority contracts, 3) local tax raising powers, and 4) monitoring and evaluation. We draw on secondary data analysis and the qualitative interviews conducted to give insights into both aspects of policy, which are currently creating challenges for subregional actors as well as those aspects that are perceived to be effective. The section concludes by summarising calls for how the French funding system could be reformed to better respond to subregional challenges and opportunities.

Context

As discussed above, **France has undergone significant institutional reforms over recent decades, however, it has retained a complex funding landscape** (Gustedt et al, 2022). Proposed reforms to fiscal equalisation and tax systems have been only partially implemented. According to an interviewee, this creates the system which is "*good, but undoubtedly not completely satisfactory, and which is difficult to understand*" (int-9).

The French State introduced austerity measures in the wake of the 2008 global financial crisis and pressure from the European Commission to reduce its budget deficit, which has persistently considerably exceeded the thresholds established by the Eurozone Stability Pact criteria. In exchange for extensions granted by the European Commission, the French government has been required to implement progressively stricter budgetary control policies (Pasquier, 2016 cited in Demazière, 2021). This drive for fiscal efficiency and a reduction in public finances led to an increased focus on the competitiveness and innovative capacity of urban structures (Le Bras and Warnant, 2021).

Figure 3 provides an overview of changes in the sources of operating revenue for local authorities in France between 2014 and 2021. It illustrates increasing reliance on taxes and duties, along with decline in state funding, although this picked up somewhat from 2018 onwards.

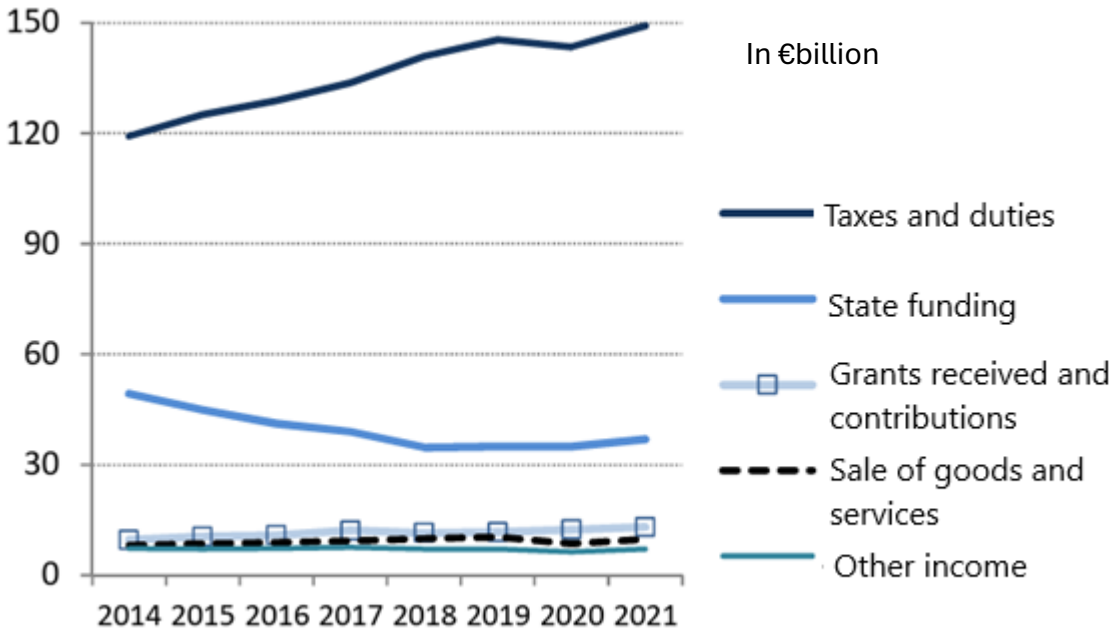

Figure 3: Composition of operating revenue of local authorities 2014-2021 (Observatoire des finances et de la gestion publique locales and Direction générale des collectivités locales, 2022, p.15).

The introduction of decentralisation reforms from the 1980s onwards saw a reduction in the financial and political power and autonomy of local authorities and an unprecedented growth in the role of the region (Loughlin, 2008, cited in Brennetot (2021). This trend is illustrated in Figure 4 which shows the gradual increase in the financial weight of the French regions. Nonetheless, interviewees suggested that métropoles and cities remain powerful financial actors because they have greater tax raising powers than the regions.

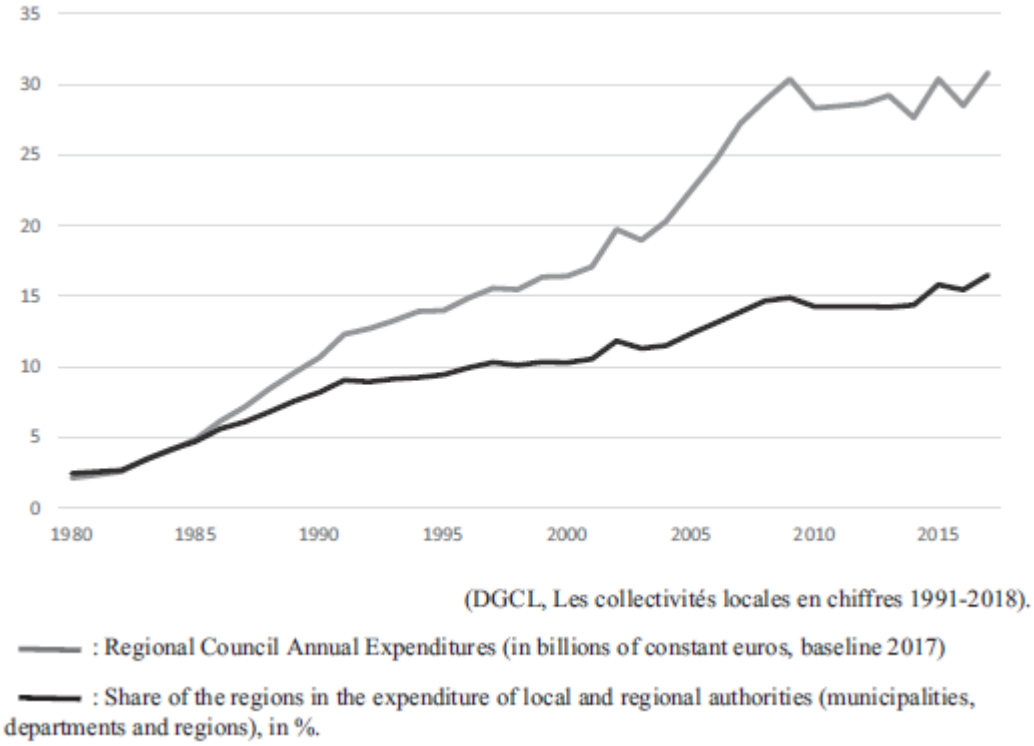

Figure 4: Changes in the financial weight of French regions. Source: Brennetot, 2021, pp. p.818-819.

Some commentators have argued that limited local budgets hinder attempts to effectively address spatial inequalities (Le Bras and Warnant, 2021). Interviewees emphasised that whilst unlike England France has not suffered dramatic cuts in local authority funding during the 2010s, at the time of writing in early 2025, a context of fiscal constraints was creating difficulties for local authorities. The 2025 Finance Bill adopted by the French Senate in February 2025 aims to save €50 billion and to reduce the public deficit to 5.4% (compared to 6.1% in 2024) of GDP in 2025 (Vie publique, 2025).

Grant funding and fiscal equalisation mechanisms

Fiscal equalisation mechanisms

France operates a series of vertical and horizontal equalisation mechanisms as described below. The mechanisms are designed to "*reduce disparities in resources between local authorities with regard to the charges they must face. Resources and charges depend on geographical, human (for example, the income of residents) and economic constraints (for example, the dynamism of tax bases, the importance of the industrial or tertiary fabric, etc.), which do not guarantee a priori an adequacy of resources to the charges of each local authority*". Since the 2003 constitutional revision, equalisation has held constitutional significance. The Constitution stipulates that laws establish equalisation mechanisms to promote fairness among communities (République française et Collectivités locales, n.d., c).

'Vertical' redistribution refers to the State distributing equitably the grants it pays to local authorities. 'Horizontal' redistribution involves a deduction from the revenues of the richest local authorities and their redistribution to less-well off local authorities (République française et Collectivités locales. (n.d., c, d). When seeking to understand how vertical and horizontal equalisation mechanisms exist, it should be noted that in the French context 'local authorities' is often an umbrella term covering different forms of sub-national institutions/entities (municipalities, intermunicipalities, departments and regions). The below sub-sections summarise mechanisms in operation for each tier.

Vertical equalisation mechanisms

Vertical equalisation grants are primarily part of the Global Operating Grant (*dotation globale de fonctionnement,* DGF) and apply to all levels of local authorities, except for regions, whose DGF was replaced in 2018 by a share of VAT revenue. The mechanisms aim to ensure a fair distribution of public funds to guarantee a minimum level of services and infrastructure across France, regardless of the fiscal capacity of each region.

The Global Operating Grant has two principal purposes:

1. To provide local authorities with relatively stable and predictable resources from one year to the next.
2. To implement vertical equalisation by providing particular support to local authorities facing significant expenses and insufficient resources to cope with them (République française et Collectivités locales, n.d., e).

Established in 1979, the Global Operating Grant is governed by the Finance Law and applies to municipalities, intermunicipal bodies, and departments. Set yearly, it is calculated according to a formula based on the potential income from the four main local taxes above and the remaining tax revenues. The state calculates the resources of the municipality, intermunicipal body, or department based on the average tax rate. Subnational authorities where the revenues fall short of the national average then receive support from equalisation funds (European Committee of the Regions, n.d., b). There are different elements according to the spatial scale:

- The DGF for municipalities is composed of two parts: a flat-rate grant and equalisation grants (the Urban Solidarity and Cohesion Grant - *Dotation de solidarité urbaine et de cohésion sociale*, DSU; Rural Solidarity Grant - *Dotation de solidarité rurale,* DSR and the National Equalisation Grant - *Dotation nationale de péréquation*, DNP), each of which are designed to respond to the problems of distinct categories of municipalities (e.g. rural, urban).

- The DGF for intermunicipal bodies includes a compensation grant[8] as well as an equalising component, the intermunicipal grant (*Dotation d'intercommunalité*) The DGF for the departments is similar - including a flat-rate allocation, a compensation allocation and two equalisation allocations (Urban Equalisation Grant -*Dotation de péréquation urbaine*, DPU and the Minimum Operating Allocation - *Dotation de fonctionnement minimale*, DFM) respectively allocated, under conditions, to urban and rural departments (République française et Collectivités locales, n.d., e).

The equalising component (apart from for the regions) is calculated according to about 30 criteria which fall into two categories: resources and expenses. They include demographic, social, financial, physical/geographical and administrative characteristics. Some criteria are used for grant elements within the DGF (e.g. population) whilst others relate to specific components (e.g. road length is considered as part of calculations the Rural Solidarity Grant (Direction générale des collectivités, 2024). A formula is used to identify the potential income from the four main local taxes (see sub-section below) and the remaining tax revenues. Sub-national entities, where revenue is likely to fall short of the national average, receive equalisation funding (European Committee of the Regions, n.d., b). For example:

- The €2.8 billion Urban Solidarity Grant (DSU) aims to contribute to improving living conditions in some of the most disadvantaged municipalities in France. Allocations are calculated based on criteria related to financial potential, the number of social housing units, the number of beneficiaries of housing benefits and the average taxable income of households. This grant is intended for urban municipalities with over 5,000 inhabitant and is paid to 10% of metropolitan municipalities with between 5 and 10,000 inhabitants and to two thirds of municipalities with over 10,000 inhabitants

- the Urban Equalisation Grant (DPU) is paid to urban departments whose financial potential per inhabitant is less than or equal to 1.5 times the average financial potential per inhabitant of all urban departments, and whose income per inhabitant is less than 1.4 times the average income per inhabitant of all urban departments.

- The Minimal Operating Allocation (DFM) is paid to non-urban departments whose financial potential per inhabitant is less than or equal to twice the average financial potential per inhabitant of all "non-urban" departments. It is calculated according to the length of the road network, the financial potential per inhabitant and the financial potential per km^2 (République française et Collectivités locales, n.d., g).

The final amounts allocated to the DGF envelopes dedicated to equalisation are decided by the Local Finance Committee (composed of elected officials).

A flat-rate allocation for the regions is indexed according to a rate set by the Local Finance Committee rather than the number of inhabitants. The Regional Equalisation Grant (*Dotation de péréquation des régions*) is the balance of the total envelope of the DGF of the regions after

[8] Corresponds to the amounts previously received, outside the DGF, as compensation for the elimination of the "salary portion" of the business tax (CPS) and the reduction in the compensation grant of the business tax (DCTP) between 1998 and 2001 (République française et Collectivités locales, n.d., e).

deduction of the part corresponding to the flat-rate grant (République française et Collectivités locales, n.d., e).

The Global Operating Grant was worth over €27 billion in 2024. Figure 5 provides a breakdown of the value for municipalities, intermunicipal bodies and departments.

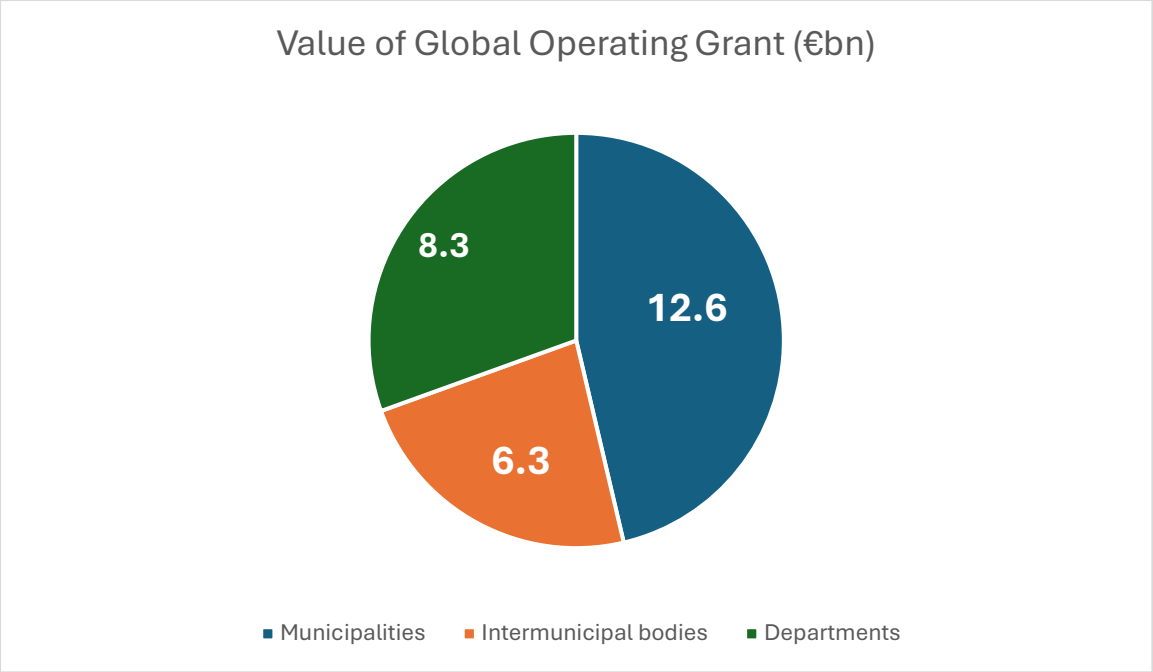

Figure 5: Value of the Global Operating Grant to municipalities, intermunicipal bodies and departments in 2024. Source: Direction générale des collectivités (2024, p.2).

In 2024, the Global Operating Grant represented 15% of actual operating revenues of the municipalities, 20% of operating revenues of the intermunicipal bodies, and 12% of operating revenues of the departments (DGLC, 2024, p.2).

Between 2014 and 2018, as part of fiscal consolidation policies, the value of the flat-rate portion of the DGF to sub-national entities fell. The DGF saw an €11 billion reduction over the period 2013 to 2017, falling 25% from €41.5 billion to €31 billion (Le Bras and Warnant, 2021; Tellier, 2023)). Conversely, the state sought to strengthen equalisation grants to provide greater support to the weakest sub-national entities (OECD, 2023). The scale of cuts to the DGF is greater than the total amount of funding provided as the funding provided to urban areas as part of City Policy and City Contracts, the Small Towns of Tomorrow policy and the Town Centre Plan (see Figure 1).

The proportion that equalisation grants make up within the Global Operating Grant has increased in the last 15 years but remains limited. The seven equalisation grants represented nearly 32% of the amount of the DGF in 2022 compared to 15% in 2007. This increase is attributed to sharp decline in the flat rate share between 2014 and 2017, accompanied by a concurrent increase, of the Urban Solidarity Grant for municipalities (DSU) and an even greater rise in the Rural Solidarity

Grant (DSR) and the Overseas Municipalities Development Grant (DACOM) (Court of Accounts, 2023).

The value of the DGF remained stable between 2018 and 2022, before the overall funding envelope increased in both 2023 and 2024 (Direction générale des collectivités, 2024). In 2023 and 2024, the total value of the DGF increased by €320 million compared to the previous year. In 2024 the increase to €27.245 billion represented a 1.19% increase. The increased funding has been split across the Urban Solidarity Grant (DSU, €140 million), the Rural Solidarity Grant (DSR, €150 million) and the Intermunicipal Grant (€30 million) (Brivet, 2024). This case illustrates some core fiscal federalism concepts with adaptations in the particular national setting.

Key changes over this period in terms of the total value of the DGF paid to municipalities and intermunicipal bodies, the value of the equalisation grant and the percentage that equalisation grants made up within total DGF allocations to municipalities, regions and departments are illustrated in Figure 6.

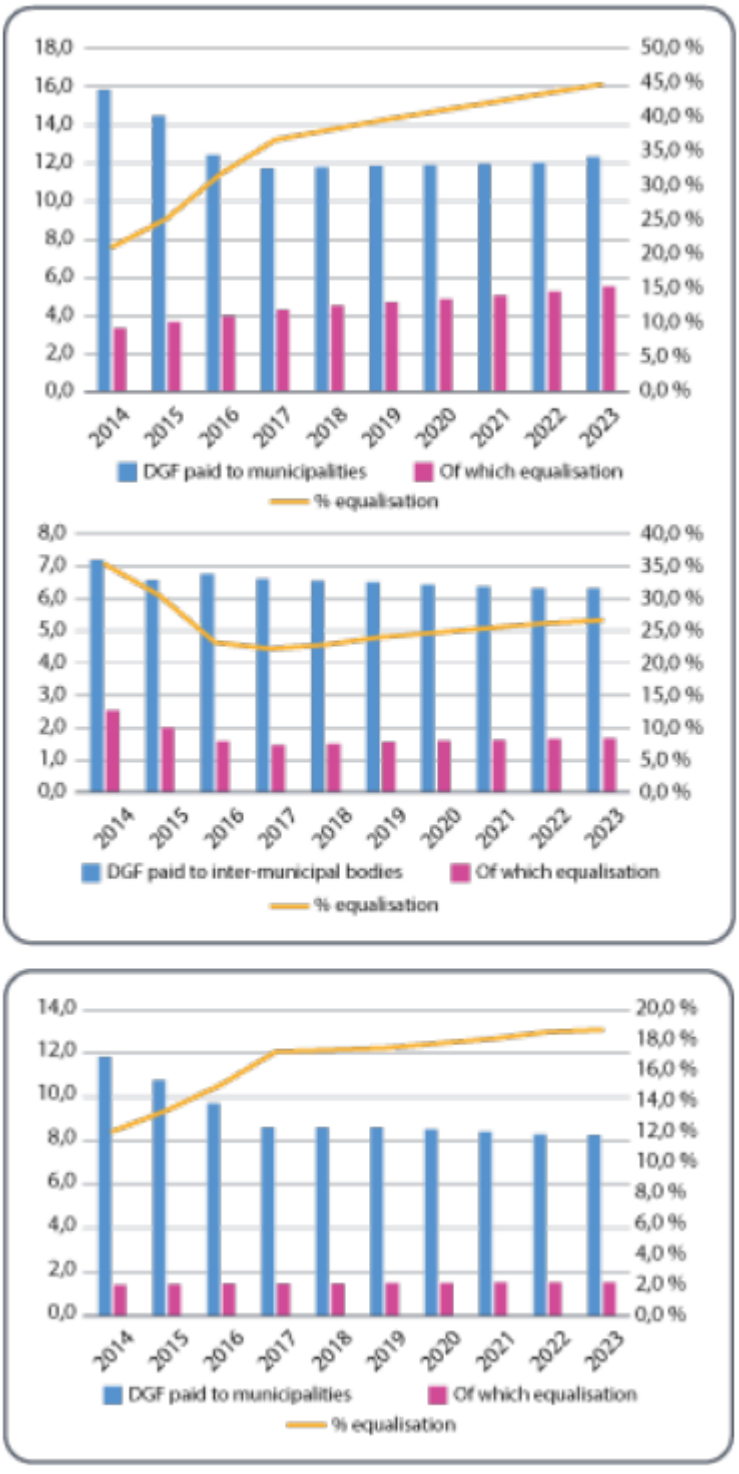

Figure 6: Total Global Operating Grant awards (including and percentage of which are equalisation grants to municipalities), to intermunicipal bodies and municipalities 2014-2023. Adapted from: Cour des comptes, 2023, p.7. The final chart has been corrected to indicate 'departments'. Both the top and bottom charts showed 'municipalities' but the French version of the charts shows 'departments' for the bottom chart.

Despite this small recent increase, overall, the total value of the Global Operating Grant in state transfers to local authorities has fallen considerably over the last decade (from 40.7% of transfers set out in the Finance Law of 2013 to 17.6% in the 2024 Finance Law) (Cour des comptes, 2024). At the same time there has been a move to greater reliance on transfers of national tax revenue (internal tax on the consumption of products energy (TICPE), special tax on insurance agreements (TSCA) and, above all, tax on added value (VAT)).[9] This change is illustrated in Figure 7 below.

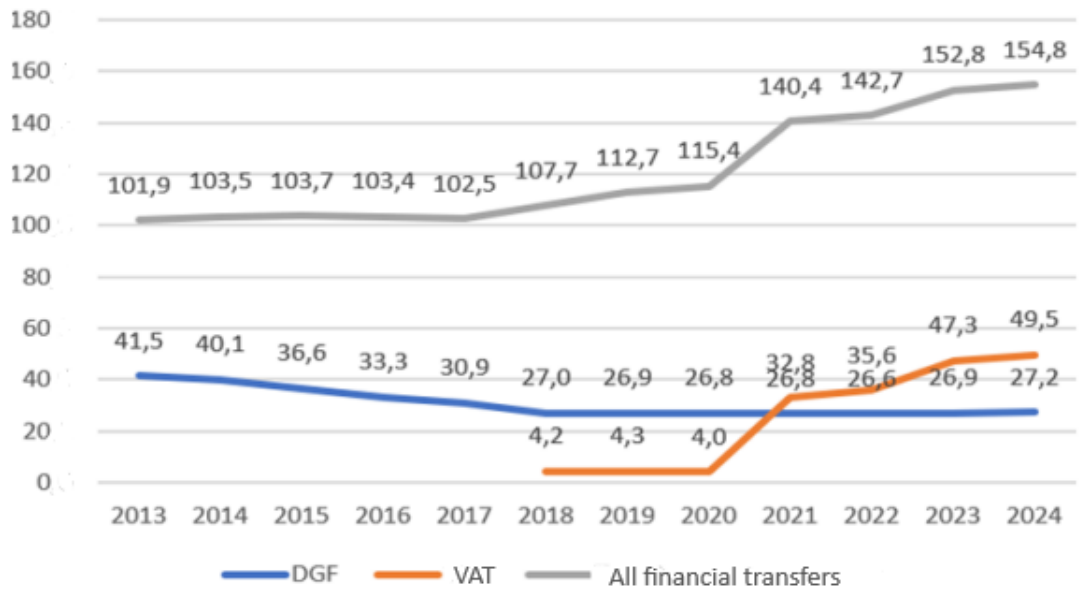

Figure 7: Evolution of transfers from the State to local authorities (2013-2024, in € billion of authorised consumed commitments). Source: Adapted from Cour des comptes (2024b, p.34). N.b. , (comma) = . (decimal point).

Horizontal equalisation mechanisms

Since 2010 a series of horizontal equalisation mechanisms have been established in France to equalise local authority tax resources. Prior to this point, the primary route for redistribution was state grants. The key horizontal equalisation mechanisms are:

1. The Intermunicipal and Municipal Resource Equalisation Fund, *Fonds de péréquation des ressources intercommunales et communales* (FPIC). Established by Article 144 of the 2012 Finance Act, the FPIC is the first national mechanism for horizontal equalisation

[9] Since 2018, VAT has compensated for the abolition of the DGF for the regions and, since 2021, that of local taxes. Since 2021, the regions have benefited from a fraction of VAT to compensate them for the ending of their ability to collect the Company Value Added Tax (CVAE); the departments and intermunicipal bodies collect other fractions of VAT in order to compensate for the impact of the abolition of the Housing Tax on main residences main (intermunicipal bodies have lost this revenue source; the departments have lost the ability to collect Property Tax revenues on built properties, which were reallocated to the municipalities in order to compensate them for the loss of Housing Tax revenue on main residences). See: Cour des comptes (2024).

of resources within an intermunicipal body (EPCI) with its own tax system. It involves the collection of part of the tax resources of certain intermunicipal bodies and municipalities, which is then transferred to more disadvantaged intermunicipal bodies and municipalities. The mechanism was designed to compensate municipal income lost following the withdrawal of a business tax in 2011 (République française et Collectivités locales. (n.d., c). The French State abolished the business tax[10] because it was considered to be hindering the competitiveness of the French economy by not encouraging investment (e.g. hiring, purchasing). Intermunicipal groups—comprising EPCIs with their own tax systems and their member municipalities—serve as the reference level. Their collective wealth is assessed by consolidating the tax revenues of both the EPCIs and their municipalities. This approach enables comparisons between different intermunicipal entities without distortions related to tax structures. Additionally, municipalities not affiliated with an EPCI with its own tax system, known as 'isolated municipalities' may also contribute to, or benefit from, the Intermunicipal and Municipal Resource Equalisation Fund. After the fund is shared out among intermunicipal bodies and isolated municipalities, the funding is divided between the municipal body and all member municipalities, as well as among the member municipalities themselves. Additionally, community councils have the option to adopt an alternative distribution method that differs from the standard allocation framework. (République française et Collectivités locales, n.d., d).

2. In 2020 a National Fund for Equalisation of Transfer Taxes for consideration (*le fonds de péréquation des droits de mutation à titre onéreux des départements,* DMTO) collected by the departments was established. It is funded by two levies. The first levy is equal to 0.34% of the amount of the DMTO base collected by the department the previous year. The levy is not fixed, varying each year depending on the tax base. It concerns all departments. The second levy is a fixed amount of €750,000,000, allocated to departments where the per capita amount of the DMTO base collected in the year preceding the distribution is greater than 0.75 times the national average (République française et Collectivités locales, n.d., d).

A Community Solidarity Grant (*Dotation de solidarité Communautaire*) **also exists for the benefit of member municipalities of an intermunicipal body and is designed to support equalisation within intermunicipal bodies to combat territorial divisions.** The General Code for local authorities in France states that "*urban communities, métropoles and the Lyon metropolitan area are required to establish for the benefit of their member municipalities a Community Solidarity Grant aimed at reducing disparities in resources and charges between these municipalities*". The value of the grant is set by the community council. The establishment of a Community Solidarity Grant is optional for Communities of Municipalities and Urban Communities – two other forms of intermunicipal bodies (République française et Collectivités locales, n.d., d).

[10] Business tax paid by companies. It was calculated according to the rental value of land of properties subject to property tax; the company's revenues; the rental value of equipment and movable property; and salaries.

Horizontal equalisation mechanisms are currently much lower in value than (€3 billion in 2024) **than the state's vertical allocations for equalisation purposes** (just over €9.4 billion euros in 2024). Nonetheless, they are an important component of efforts to reduce territorial inequalities (République française et Collectivités locales, n.d., d). The Court of Accounts (2023) emphasises how aside from the two revenue equalisation schemes for property transfer taxes—one benefiting small municipalities within departments and the other between departments—progress has stalled. Notably, the national Intermunicipal and Municipal Resource Equalisation Fund (FPIC) has remained fixed at €1 billion since 2016, while regional equalisation involves only a minimal allocation, estimated at €24 million for 2023.

Impact of vertical and horizontal equalisation mechanisms

Evidence points to the positive impact of the vertical redistributive mechanisms in France in reducing geographical inequalities, particularly vertical mechanisms. The fiscal equalisation system "*plays a crucial role in reducing territorial disparities*" (Evrard and Blondel, 2019, p.9). Further analysis of a large panel dataset of French municipalities with over 1,000 inhabitants between 2018 and 2023 identified that equalisation of tax capacities principally occurs through vertical transfer mechanisms (the Global Operating Grant), as opposed to the horizontal finance mechanism. The authors suggest that the impact of the horizontal scheme is "*modest*" (Jaaidane and Larribeau. 2024, p. 12). The Court of Accounts has underlined the positive effects for disadvantaged local authorities of French equalisation schemes in helping to reduce inequalities in resources, arguing that "*in disadvantaged local authorities, equalisation represents a significant proportion of revenue*" (Cour des comptes, 2023a, p. 8). Introducing a constitutional requirement for redistribution of funding across local authorities in 2003 was important in increasing focus on redistribution mechanisms but, unlike some countries such as Germany, France does not have a result requirement for redistribution mechanisms.

However, some **cuts to the Global Operating Grant have taken insufficient account of local context, hitting poor urban areas harder than poor rural areas** (Le Bras and Warnant,2021). Since per capita funding fluctuates according to each local authority's density and wealth criteria, a proportional decrease in funding disproportionately affects poor urban authorities. According to the Court of Accounts (2023) the financial equalisation mechanism "*requires further expansion and better targeting*" to respond more closely to the differing needs of local authorities according to the population and region. Over 97% of municipalities receive some form of equalisation funding, although some only receive minimal support. This limits the value of funding that can be reallocated to municipalities facing the greatest challenges (2023a, p. 6, 8). A further report by the Court of Accounts (2024) criticises the Global Operating Grant for becoming "very *complex*" in aims and operation in order try to address a range of local challenges. Regarding aims, the report stresses how the DGF is trying simultaneously to:

- offset old tax revenues allocated to local authorities (including reductions in professional tax);
- compensate for transfers of powers;
- redistribute resources to disadvantaged local authorities (Cour des comptes, 2024b, p.8).

Operational challenges identified include how the DGF "*juxtaposes semi-fixed flat-rate and compensation grants, calculated based on historical data, and equalisation grants, based on the contrary on contemporary data reflecting the current situation of local authorities"* (Cour des comptes, 2024b. p.8; Vie publique, 2024c).

There have been several calls to reform the Global Operating Grant. A 2015 report by MPs Pireas Beaune and Louwagie made several recommendations including reforming the Urban Solidarity Grant within the DGF (by reducing the number of beneficiaries and distributing the grant more fairly by targeting it more closely on the poorest/most fiscally disadvantaged sub-national entities, to avoid it being shared too thinly across beneficiaries) and creating a DGF envelope targeted at the intermunicipal scale which could then be distributed to the intermunicipal body and member municipalities. A 2023 report by the Court of Accounts argues that inequalities between local authorities are currently increasing and that these "*cannot disappear within the framework of the current DGF*" (p.10). **It calls for vertical equalisation grants to be better targeted at the most disadvantaged municipalities** "*to bring an end to the scattergun approach of covering as many local authorities as possible*". Jaaidane and Larribeau (2024) contend that the allocation process should be made more transparent with equalisation based on criteria that cannot be used strategically to influence which local authorities receive funding. Others suggest that in a context of dwindling local authority resources and increased operating expenses particularly because of increased energy costs, the DGF is "*no longer adapted to the burdens weighing on local budgets*" (France Urbaine, 2024). Further criticisms **include that calculation parameters are partly incomplete, outdated or imprecise, that the calculation process is cumbersome and incompletely.** The authors suggest the distribution of certain grants given to non-urban departments "*does not take into account the income of residents, which is nevertheless a relevant indicator of the costs linked to the sociology of local government, including in rural areas"* (p.9). The report also highlights the vast amount of data that must be considered and the intricate regulations that need to be incorporated into the calculation formulas, arguing that this *"presents significant risks of error"* (p.10).

In 2023 Macron asked the Local Finance Committee to overhaul the Global Operating Grant but in spring 2024 the Local Finance Committee suspended its work on the reform demanding greater "*room for manoeuvre*" (Beurey, 2024). The French state is looking to continue the reform, but no proposals had been published by February 2024. Some commentators argue that it will be necessary for the French State to increase the value of the DGF to keep pace with the needs of subnational government. However, others indicate that this would be unrealistic given the current focus of the French state on reducing the public deficit. The Association of Mayors of France has lobbied for the DGF to continue to be targeted primarily at the municipalities (Beurey, 2024).

An interviewee explained that **a challenge for the horizontal redistributive funding** mechanism overseen by the state (FPIC) is **that some richer authorities which contributed to the mechanism, resented having to do so.** "*They impose it on the authorities in a way that some perceive relatively badly because they have the impression that it ultimately has an confiscatory effect for the authorities which are contributors to the equalisation funds*" (int-10).

Interviewees suggested that **the Community Solidarity Grant between municipalities within an intermunicipal body is more dynamic because**, unlike the FPIC which is managed by the state, **redistribution is based on voluntary agreement** between the authorities in a intermunicipal body. "*Reducing the inequalities which can exist between the municipalities within an intermunicipality is ultimately beneficial for all the municipalities. So, in this respect, […] there is not this rent effect or this confiscatory effect*" (int-10).

One interviewee explained that intermunicipal bodies, including métropoles, redistribute almost half of the Global Operating Fund that they receive from the state but that identifying projects to fund can be challenging due to sometimes limited solidarity between municipalities and complex relationships in some areas between the municipalities and intermunicipal bodies. "*It is very complicated since the mayors are elected by direct universal suffrag,e which are legitimate (institutions). This is not the case for the intermunicipal bodies*." The mayor of large cities within intermunicipal bodies sometimes act as the President of the intermunicipal body. The 2023 Court of Accounts report on local public finances called for increases in the value of horizontal equalisation funds (Ministries of the Interior and Overseas France, Environmental Transition and Territorial Cohesion, and the Economy and Finance).

Targeted grant funding

Whilst **competitive bidding processes appear to be less common in France than in the UK**, they are a **feature of European cohesion funding,** which local authorities in France can access to, since France is an EU member state (as set out in section 2). Funding is awarded through a process of competitive bidding, which has often been associated in France with new public management approaches developed in the UK. An interviewee explained that European funding is therefore "*bringing in more competitive principles which are probably against the French idea that everyone deserves something, even if it is not much"* (int-7).

There has been a **move over the last decade to greater use of project calls outside of European funding**. **The French state has developed a series of 'zoning policies' where funding calls are targeted at certain types of areas**. Programmes include Small Towns of Tomorrow and the Town Centre Plan as well as a policy for rural areas (see section 2 for more details). In some case the state identified beneficiaries in advance and just required them to complete an application form.

Interviewees welcomed grant funding targeted at certain types of areas such as towns, emphasising important projects enabled through the funding and suggesting that this type of funding brought attention to the challenges faced by non-metropolitan areas. Experiences in France **illustrate how selective use of competitive funding alongside longer-term allocated funding can stimulate new ways to address challenges whilst enabling long-term strategic planning.**

Nonetheless, they identified several challenges with current grant funding programmes designed to address geographical inequalities.

Some **interviewees described programmes targeting peripheral territories as "*symbolic* with insufficient budget to address the scale of challenges"** (int-2). This fits with the relatively small of sums of funding available discussed in section 2 and how the French Senate (2023) has criticised how most of the aid (from the State and its partners) for the Town Centre Plan and Small Towns of Tomorrow programmes took the form of loans, equity investments and aid to private investors. Costs for city centre revitalisation within the Small Towns of Tomorrow programme have fallen primarily on local authorities, with funding from the French State and partners representing on average, less than 25% of the financing plans for projects (Délégation aux collectivités territoriales et al, n.d.).

Interviewees also **criticised that grant funding announcements often do not involve new money, but instead the short-term redirection of existing funding**. *"We have existing initiatives that we aggregate to create a more visible programme, but the added value is, not as strong as claimed by the government"* (int-1).

Interviewees also **suggested that the decision to target funding at certain types of places** (e.g. small towns) **but still fund a large number of areas has meant that funding has been spread thinly across many beneficiary areas with little consideration given to inequalities in the fiscal or economic situation of these towns. Some funds were reported to be awarded based on the quality of the project rather than local need.** An example of funding with limited targeting by socio-economic need is the 1,600 municipalities and intermunicipal bodies with a population of under 20,000 residents which participated in the Small Towns of Tomorrow programme. Describing the process as "*fragmented*", an interviewee suggested that policy has prioritised "*(giving) all this money to all these municipalities, whereas it would maybe have been better to give more to a few in order to have a greater impact*" (int-1).

Another issue surfaced by interviewees is **a lack of coordination in fund design across geographical scales (e.g. towns, rural areas) and institutions.** An interviewee described how "*spatialised interventions with intervention parameters and linked funding often lead to a kind of cacophony. In other words, in real life, the territories are intertwined, […] and when we tend to put up partitions (between different types of areas) like that to get funding, we … get a little lost in all this funding*" (int-4). This quote alludes to how targeting funds at lots of different types of areas can create confusion and limit overall co-ordination to achieve wider territorial goals.

Further criticisms related to the **short timeframe and top-down nature of the application process**. Interviewees argued that the brief timeframe for local areas to formulate funding proposals, coupled with minimal citizen engagement, constrained the originality of the projects created. A 2022 report for the French Senate on the revitalisation of city centres and town centres called for the coherence of revitalisation policy to be strengthened by reducing "*the number of calls for projects and calls for expressions of interest and, for those deemed essential, draw up a multi-year forecast agenda (of the State and operators) or at a minimum centralise them in a single tool*." This has parallels with experiences in England where there has recently been a multitude of programmes targeting addressing regional inequalities. (e.g. Pike and Tomaney, 2024 and Pugh, 2024).

Another interviewee identified challenges for small cities in winning competitive European funding due to a lack of expertise in developing complex bids. "*It's very difficult. So, the small*

cities they just don't have the expertise to be able to bid. So, most of the money goes to the big cities (int-4). Capacity challenges within smaller municipalities can also hinder their ability to apply for European funding to address regional economic disparities.

Competitive bidding processes utilised in France provide valuable insights for stakeholders in the UK on how central government officers as well as regional officers can support local areas in improving the quality of funding bids. In some areas, municipalities are helped to access European funding by regional authorities (e.g. regional national parks) bidding for funding for the region and then distributing it across the region (Dehne et al, 2022).

Interviewees further identified how ***Préfectures*** **(state offices in each region) can play a valuable role in providing municipalities with administrative / technical support with developing European Regional Development Fund (ERDF) and some other grant funding bids.** Whilst such support could be challenging given the role the state plays in allocating funding, it was generally suggested by interviewees to be important in enabling municipalities to succeed with complex or technical funding application processes. Interviewees suggested such support is important since whilst municipalities can benefit from support from intercommunal bodies, the capacity of intercommunal bodies to fulfil this role varies. Small and rural intercommunal bodies may particularly struggle to have sufficient capacity.

State agents being based in each region as opposed to only in Paris is perceived as contributing to the support provided. "*When you are embedded in the territory, you can much better grasp the specificities of the territory, the needs of the territory, the dynamics specific to the territory, the relations even political that there can be between the different territorial communities [...] and that enables the benefits of decentralisation to be achieved*" (int-10).

However, the **availability of support for municipalities with bid development varies depending on capacity within state regional offices.** "*The problem is that they (staff responsible for accompanying local areas to develop bids) are few in number because there have been significant budget cuts and agents have to balance accompanying local areas alongside other parts of their roles*" (int-3). The fact central government staff who support bid development are based within state regional offices rather than only in Paris was suggested by interviewees to be important in facilitating conversations between state agents and municipal officers, as regionally based stateagents were suggested to be able to draw on a strong understanding of the region to advise on addressing local policy challenges. "*They know the area very well because they spend time there on a very regular basis every day and this also allows them to bridge between what the state wants and what the local authorities want, even if their room for manoeuvre remains limited*" (int-3).

State-local authority contracts

Most local authority investments occur through State-Region Plan Contracts (*Contrat de plan État-région*, CPER), **covering seven-year cycles, aimed at promoting regional development and territorial equality. State-Region Interregional Plan Contracts (CPIER) fund projects that impact multiple regions.** Both contracts, shaped by local needs and

priorities, are designed by the regional Prefect and Council. The 2021-2027 CPIERs expand the focus to new areas like gender equality and maritime issues (OECD, 2023).

In the 2021-2027 period, state-region contracts illustrate a renewed framework for intergovernmental dialogue, guided by a number of key principles including: (i) a bottom-up approach shaped by territorial needs and expectations; (ii) an expanded scope of contractualisation, incorporating new themes to support ecological, digital, productive, and demographic transitions across sectors such as health, agriculture, sports, education, youth, gender equality, and coastal development; and (iii) the application of territorial differentiation, allowing CPERs to be tailored based on regional priorities (OECD, n.d., a). The French state and regional councils have committed to provide a minimum of €20 billion each as part of a joint approach (Ministères Amenagement du territoire Transition écologique, 2023). The state will mobilise €28 billion in the 2021-2027 CPERs. In addition, €8.6 billion in credits from the Regionalised Recovery Plan (*plan de relance régionalisé*) will be used to fund the recovery component of the CPERs in addition to 'common law' credits (OECD, n.d., a).

So far, State-region contracts have been signed in 10 French regions. For example, the Hauts-de-France State Regional Plan includes the following funding commitments over the 2021-2027 period:

- State: €994,262 million
- Hauts-de-France Regional Council: €995.212 million
- North Departmental Council: €195.400 million
- Pas-de-Calais Departmental Council: €146.420 million
- Oise Departmental Council: €52.976 million
- Somme Departmental Council: €96.205 million
- Aisne Departmental Council: €28.180 million
- Lille European Metropolis: €194.600 million
- Communauté d'Agglomération d'Amiens Metropolis: €56.308 million (Préfet de la Région Hauts-de-France et al, 2023).

Interviewees highlighted several important aspects of state local-authority contracts in terms of addressing geographical inequalities, with one describing them as "*really important devices for decentralisation*". Key benefits emphasised included **how the contracts provide a platform for municipalities, intermunicipal bodies departments and regions to collaborate as well as the state and develop long-term visions and activities.** According to an interviewee, the contracts are a way *for "all the actors to be aligned with common objectives [...] and [...] to have a shared vision of major projects. They are effective in terms of planning*" (int-8). The contracts demonstrate how the state can effectively guide local policy, allowing responsiveness to local needs by utilising the authority of regional state offices (*Préfectures*). They serve as a mechanism for setting ambitious goals, facilitating major projects and enabling money to be put in place to realise these goals.

Local tax raising powers

Greater fiscal decentralisation exists in France than the UK, providing subnational entities with more local fiscal autonomy and flexibility. Whereas the UK government has tightly controlled fiscal policy, local authorities and métropoles in France are able to levy wider tax raising powers although this has been reduced somewhat over recent years.

Demazière (2021, based on OECD, 2019), revealed that "*nearly 70% of the local revenues of subnational governments come from local taxes, tariffs and fees, while the proportion is around 30% for the UK and 50% in Italy*" (p.2043). The Court of Accounts (2023) emphasised how despite recent changes "*municipalities and intermunicipal bodies retain a significant proportion of local taxes, mainly property taxes, over which they have varying degrees of control (excluding CVAE, abolished in 2023, 49% of real operating revenue in 2022)*." In England, central government grants are expected to account for 51% of local authority revenue expenditure in 2024/5, with council tax representing 32%, and most of the remainder financed through locally retained business rates (DLUHC, 2024).

In 2023 Council Tax (TH) on primary residences and the business value-added contribution (CVAE) were abolished. As a result, as illustrated in Figure 8 taxes levied locally now only account for a small proportion of the operating revenue of the departments and, in particular, the regions.

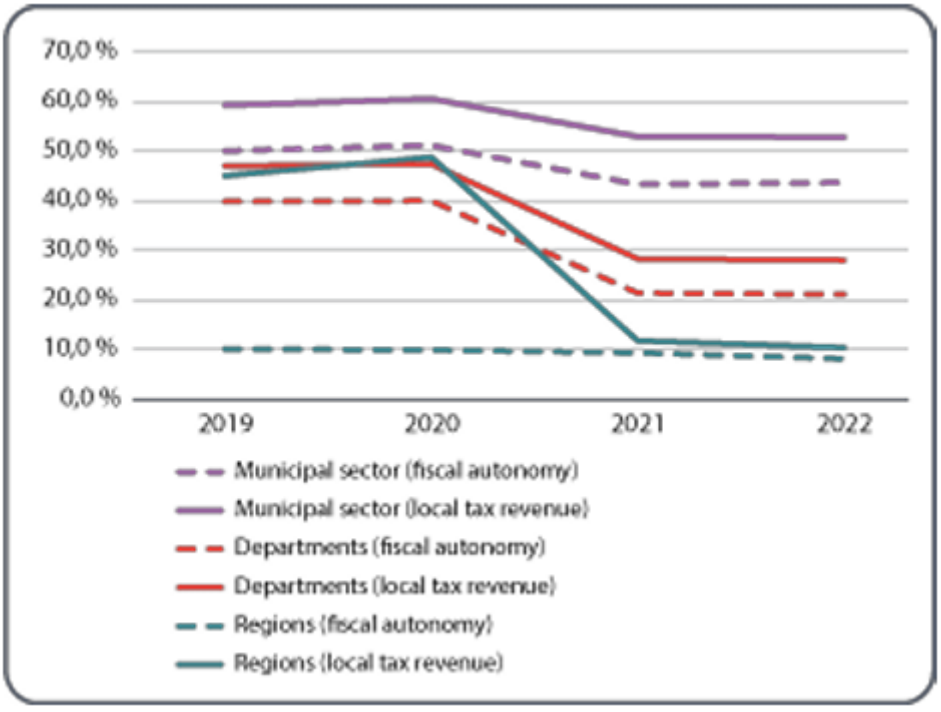

Figure 8: Proportion of operating revenue accounted for by taxes levied by municipalities, departments and regions and, among them taxes for which local authorities set the base or rate, between 2019 and 2022 (in %) (Cour des comptes, 2023, p.4).

Four principal local taxes exist in France:

- property tax on developed land (*taxe foncière sur les propriétés bâties*, TFPB). The rate is set by departments and municipalities.
- property tax on undeveloped land (*taxe foncière sur les propriétés non bâties*, TFPNB), The rate is set by the municipalities.
- residence tax (*taxe d'habitation*, TH) for which municipalities in intermunicipal bodies set the rate.
- the local economic contribution (*contribution économique territoriale*, CET), The CET comprised a business premises contribution (*cotisation foncière des entreprises*, CFE) and a contribution on business value added (*cotisation sur la valeur ajoutée des entreprises*, CVAE) until 2024, when the CVAE was abolished (République française, 2024; European Committee of the Regions, n.d., c).

Local government assemblies (e.g. departmental and municipal councils) set local tax rates when voting on their annual budget, based on the revenue that the various beneficiary authorities expect from the taxes that accrue to them. But nationally imposed ceilings exist "*the rates of TH), TFPB, TFPNB and CFE set by municipalities and government-funded intermunicipal cooperation institutions with their own tax raising powers are governed by capping and linking rules that make it possible to contain the increase in taxes paid by non-voting taxpayers, particularly businesses, by linking it to the increase in taxes paid by "voting" households. These rates are applied to bases determined by central government. There are many permanent or temporary exemptions"* (République française, 2024).

Municipalities vote on rates that will apply to the tax on built property, unbuilt property, and housing tax. In 2024, 82% of municipalities maintained their 2023 rate, 16.7% increased them, and 1.3% voted for a decrease. The average rate was 35.8% but rates varied considerably. For example, in 2024, Saint-Martin-la-Garenne in the Île-de-France region in north-central France had one of the lowest rates of tax on built property at 15.1%. Troarn, a commune in Normandy, had the highest rate in mainland France at 80,0%. The average increase was 3.3% (Alix, 2024).

Interviewees acknowledged how the system has provided local authorities with flexibility to respond to local needs and plan for the long-term. This shows how enhancing local tax raising powers can support local authorities to have the resources to think and act more strategically.

However, several interviewees argued that reforms introduced over the last 15 years (including the abolition of the Professional Tax) **mean sub-national government – the departments and in particular the regions – benefits from less fiscal freedom than previously**. There are "*increasingly significant constraints on the finances of local authorities which for several years have finally seen almost all the taxes on which they had room for manouvre being withdrawn little by little and this is replaced by taxes whose base may be local, but over which they no longer have any fiscal power*" (int-10). Interviewees stressed how French local authorities are currently operating in a very challenging operating environment, creating increased pressures on local taxes.

French Métropoles enjoy fairly substantial fiscal independence, particularly compared to UK combined authorities. Approximately half of their revenue is typically generated through local taxation, though specific budgets may differ (Bessis, 2016). For example, the European Métropole of Lille had an operating revenue of €1.576.2 million in 2023, of which €844.2 million (53.2%) came from tax revenues (Métropole européenne de Lille, 2024, p.8).[11] This financial structure incentivises métropoles to drive economic growth and attract businesses and residents, as such developments can directly impact on their revenue streams (Bessis, 2016).

A case study of Nantes Métropole by City-REDI for CIPFA found that, in 2021, Nantes Métropole's operating revenue was €589m, and that 60% of this revenue was derived from local and nationally redistributed taxes. Nantes Métropole relies on household and economic taxes to try to tackle geographic inequalities. However, with the phased elimination of the housing tax, only homeowners—rather than most tenants—contribute to household taxes that fund public services.

This shift has increased financial pressure on homeowners and diminished incentives for building social housing, as local authorities can no longer generate revenue from social housing tenants. Despite this, household taxes still accounted for 26% of operating revenue (€156m). The largest source of economic tax revenue is the business real estate contribution, totalling €78m. While the rate is set locally, it can only be increased if household taxes are raised as well. The métropole can also offer tax breaks to support small businesses, including those in the cultural sector. Additionally, a transport levy, based on payroll expenses and paid by businesses, can be applied to address public transport needs, such as rising demand. This levy was used to fund free weekend public transport in Nantes, but resulted in high costs for the metropolitan authority, which were not fully offset by the supplement (Taylor et al, 2022, p.53).

Monitoring and evaluation

It appears that comprehensive evaluations of the effectiveness of regional policies (contracts between the central state and regions, regional plans, investments in the future), town policy and rural development policies are rare. Dehne et al (2022) argue that "*there are no broadly based investigations that make it possible to judge the position of small and medium-sized towns in this spatial policy*" (p.107). Nonetheless, the OECD has emphasised how the French State closely monitors and evaluates contracts between the state and local authorities to ensure efficient use of funds and their impact on local areas. The Directorate General for Local Authorities provides guidelines for the preparation, monitoring, and evaluation of CP(I)ERs, with a focus on environmental assessments for the 2021-2027 period. It is also implementing an information system, "Contrats-Territoires" for managing CPER and CPIER contracts, accessible to all involved departments. Additionally, the National Agency for Territorial Cohesion offers a territorial observatory to track progress on territorial challenges (OECD, 2023).

[11] The taxes making up the greatest proportion are an employer contribution, paid by all companies that employ at least 11 employees (€270 million), the Household Waste Collection tax (TEOM) (€170.6million), the Mobility Payment and the Business Property Tax (CFE) (€136 million).

In September 2023, a High Council of Local Government Finances was established as an informal forum for dialogue between ministers, finance committee rapporteurs, and local elected officials. It aims to review local spending, monitor public finance laws, and support local authorities in energy and environmental transition projects. The Court of Accounts (2023) has argued that expanding the Council's role to include examining legislative provisions in relation to financial relations between the state and local authorities, mechanisms for setting aside revenue, monitoring the financial position of local authorities and their autonomy in terms of expenditure and revenue would be beneficial.

A recent report by the French Senate **has criticised a lack of precision and clarity in the objectives of the Town Centre Plan and Small Towns of Tomorrow programmes**. The report suggests that the expected objectives of revitalisation are neither quantified nor easily assessable, indicating that few municipalities are engaged in comprehensive evaluation processes. For example, the report argues that the goal of "revitalisation" was assessed solely by the return of businesses and residents to city and town centres, whereas emphasis should be on the underlying mechanisms that attract employment, businesses, artisans, public services, healthcare professionals, sports facilities, and cultural activities to these areas. It makes a number of recommendations in relation to strengthening the evaluation of programme at the national and local level. These includes retaining, for the Town Centre Plan, a reduced number of national indicators to be monitored over time and compared with other non-Town Centre Plan medium-sized cities; evaluating the impact of public revitalisation policy in a global and not segmented manner; devoting a certain percentage of Town Centre Plan programme funding to an independent evaluation; and promoting and disseminating good local revitalisation practices (Délégation aux collectivités terrtioriales et al, n.d.). These recommendations **emphasise the importance for policymakers in the UK of focusing on selected key indicators, adopting a holistic approach to evaluation, considering where independent evaluations will be of particular benefit and ensuring sufficient funding is available** to undertake this and developing to share good practice identified in evaluations conducted.

5. Assessment

France shares similarities with the UK, in terms of having a complex institutional landscape which has undergone a series of reforms over recent decades. There are parallels between how, in France, regulations concerning the intermunicipal bodies have been layered on top of one another in a fragmented manner, and, in England, the emergence of patchwork devolution and the varying powers and responsibilities of the Combined Authorities.

From a governance and institutional perspective, the analysis in this case study points to the following learning points for the UK:

1. Reducing the number of institutions does not necessarily reduce complexity if the complexity of institutional layers is not also addressed. Administrative complexity can hinder efficient use of funding.

2. Challenges following the reform of the regions indicate that the search for economies of scale when formulating regional institutions must not forget the experiences of rural left behind territories. Regions that are too big can prevent specialisation and lead to left behind places becoming further alienated. Hence, there is a need to consider both institutional and lived territories, or at the very least, if a larger territorial government is created, consideration should be given to how the varied circumstances of smaller constituent localities can be represented and how engagement between residents and governance structures can be facilitated.

3. New institutional structures may not achieve economies of scale due to incurring additional costs. Being sensitive to the needs and cultural history of place is important.

4. Increasing the competitiveness of regions cannot be achieved only through increasing the geographical scale of regions. Having appropriate competences and budgets matter too.

5. To support the development of forward-looking administrative services and structures, there is value in decision-making being perceived to be close to peripheral and rural territories. Creating very large regions where decision-making occurs far from citizens can contribute to residents feeling that the state has withdrawn from and/or abandoned peripheral and rural areas.

6. The state can be a positive driver of local policy through its presence in regional governmental offices but must be sufficiently resourced to develop and build on relationships with other sub-regional institutions.

More differences exist between the UK and France in terms of the funding systems developed to address regional inequalities. calculates what the resources would be of subnational entities would be based on the average tax rate from the four main local taxes above and the remaining tax revenues and an equalisation fund provides support to subnational entities where revenues would fall short of the national average and revenue autonomy at local level is quite high (European Committee of the Regions, b).

From a funding perspective, the analysis in this case study points to the following learning points for the UK:

1. France illustrates how long-term local fiscal autonomy and flexibility are important in enabling sub-national government to develop locally specific, long-term responses. Sporadic or piecemeal levers are unlikely to create considerable impact.

2. Selective application of competitive funding, alongside sustained long-term allocations, can foster innovation in tackling challenges while supporting strategic planning.

3. Equalisation mechanisms can be important in reducing geographical inequalities but can be complicated to operate in practice. In France such mechanisms have supported local authorities facing significant expenses and insufficient resources, reducing territorial inequalities but there is evidence that the mechanisms could better target the most disadvantaged local authorities. The volume and ease of operation of equalisation mechanisms are therefore important. There could be value in targeting schemes at a

small number of beneficiaries with the highest need to try to distribute growth more fairly and avoid funding being shared too thinly across beneficiaries.

4. There is a trade-off to be made between targeting funding at all local authorities that share certain size characteristics (e.g. small towns) and targeting those with the greatest levels socio-economic needs. Whilst targeting all local authorities in this manner can symbolically draw attention to the challenges faced by that type of area, spreading funding thinly can limit the extent to which inequalities can be addressed, not addressing citizen feelings of abandonment.

5. 7-year state local authority contracts have been important in providing a platform for local authorities to speak with one another as well as the state, and to undertake long-term visions and activities. The contracts provide a vehicle for the state to steer local policy whilst enabling policy to be responsive to local needs. The system illustrates the benefits of state offices embedded within regions.

6. The state can help local authorities with less capacity / expertise by providing support with developing funding bids. Central government officers based within the regions can play a valuable role in providing municipalities with administrative / technical support with bid development. Drawing on strong understanding of the region developed through being based regionally, they can act as bridge between the state and local authorities. Accessing supporting from civil servants based regionally who have a strong understanding of regional needs can help facilitate relationship building and enable the development of stronger, more regionally responsive bids.

7. Regional authorities can support small towns to successfully access competitive funding by using their (often) greater expertise and capacity to submit bids to central government on behalf of the region and then distributing that funding across the region.

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