



# STABILITÀ EQUITÀ SVILUPPO IL CONTRIBUTO DEI COMUNI

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# **The French inter-municipal cooperation experience**

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# France: a very fragmented country

	Region	County (« départements )	Inter- municipal jurisdiction (EPCI)	Municipality
Number	27	101	2,145	36,767
Field of competence	Regional economic planning, industrial development and professional education	Health and social services, construction and maintenance of public highways, and school bus transportation	Economic development, public transport, cultural, sport facilities...	Land use and planning, and building permits...

# Cooperation among local governments: a long tradition in France

- First experiences of cooperation date back from 1890, with the « syndicats de communes », single-purpose or multi-purpose associations, funded from the budget of the member municipalities.
- Inter-municipal communities (« EPCI ») to supply joint local public goods encouraged by law in 1966 and in the 1990s to reduce fragmentation, achieve economies of scale and limit fiscal and spending inequalities between municipalities.

# Functional and voluntary cooperation: an alternative to merger

- An alternative to merger is the creation of more flexible governance structures at the local level that allow for joint provision of LPG while maintaining jurisdictional autonomy.
- Many countries (France, Spain, Italy, England, Ireland, The Netherlands, Portugal, Belgium, Brazil...) allow neighbouring municipalities to set up such inter-municipal agreement on voluntary basis to provide LPG to residents of member jurisdictions.
- In this setting, the municipalities continue to exist as entities after joining an inter-municipal body in a functional cooperation.

# Cooperation: a « voluntary » process

## Principles of creation

- Based on the volunteering principle but compulsory since 2010
- Contiguity principle
- Member municipalities "choose" the competencies they transfer to the community
- Member municipalities transfer (or share) some fiscal powers to their community

## 3 main legal forms

- *Communauté urbaine or Urban community*: Population  $\geq$  500,000 inhab.
- *Communauté d'agglomération*: Population  $\geq$  50,000 inhabitants
- *Communauté de communes*: No minimum population size required

## Tax autonomy

Either they set a single business tax (compulsory for urban community and communauté d'agglomération) or they apply an additional tax rate on municipal tax base

Name of the competences category	Compulsory competences according to the EPCI legal form		
	CU	CA	CC
Energy production and supply			
Environment and living environment	✓		
Funeral services			
Sanitary and social			
Urban policy	✓	✓	
Local plans of action of crime prevention			
Economic development and planning	✓	✓	✓
Social and cultural development and planning			
Space planning	✓	✓	✓
Road network			
Tourist development			
Accommodation and housing conditions	✓	✓	
Infrastructures	✓		
Other			

# Political aspects

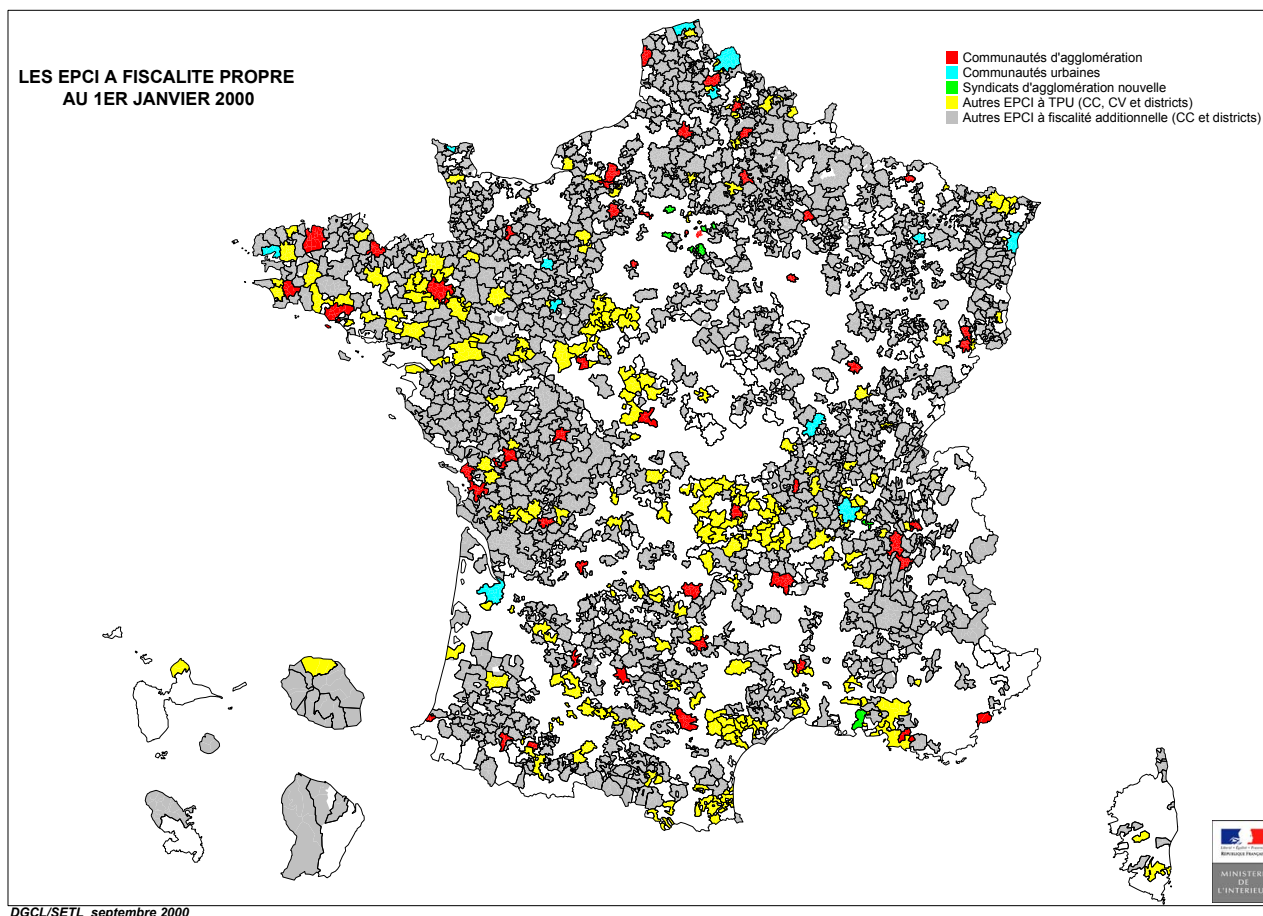
- Local councils decide whether the municipality will join the inter-municipal jurisdiction (EPCI). Since 2014, the EPCI is governed by a board of delegates elected among municipal officials directly elected by population.
- The number of seats held by a municipality is generally proportional to the municipal population. Each municipality must have at least one seat, and no single municipality can hold more than half of the inter-municipal council seats.



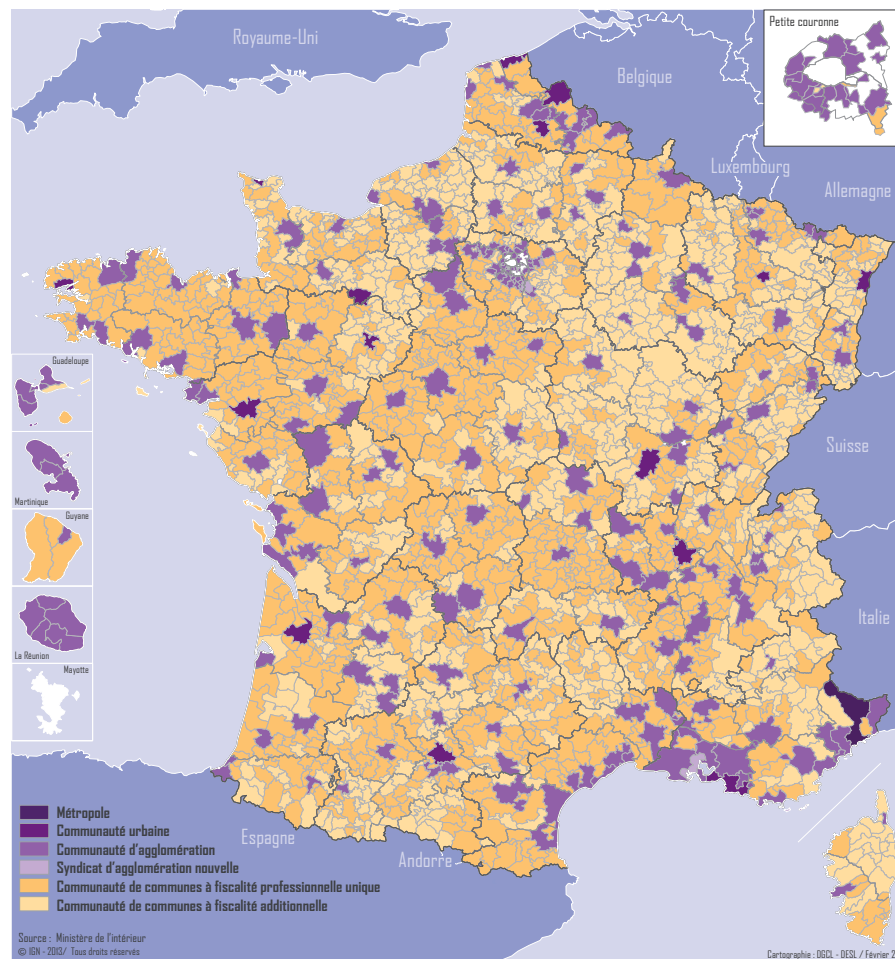
*Table 1: Current forms of inter-municipal institutions and their characteristics*

<b>Single purpose association</b>	In existence since late 19 <sup>th</sup> century. Adhesion and withdrawal following qualified majority vote in member municipal council. Competencies optional. Common for water management, waste management, urban transport.
<b>Multi-purpose association</b>	In existence since late 19 <sup>th</sup> century. Adhesion and withdrawal following qualified majority vote in member municipal council. Competencies optional. Common for water management, waste management, urban transport.
<b>Urban Community</b>	Established 1966. Extensive compulsory competencies in areas of urban services, infrastructure, planning and economic development. No possibility of withdrawal. Compulsory for Bordeaux, Strasbourg, Lyon and Lille; voluntarily adopted by 10 others.
<b>Communauté d'agglomération</b>	A creature of the Chevènement law of 1999. Intended for contiguous urban areas of more than 50,000 inhabitants with a central municipality of more than 15,000. Compulsory competencies for urban planning and development. Compulsory single business tax.
<b>Communauté de Communes</b>	Rules about competencies and mode of funding depend on the size of the Communauté. Broadly speaking a Communauté de Commune in a large urban area is much like the Communauté d'Agglomération.

# Cooperation in 2000



## L'INTERCOMMUNALITÉ À FISCALITÉ PROPRE AU 1<sup>ER</sup> JANVIER 2014



# Towards more integration

## ÉVOLUTION DU NOMBRE DE GROUPEMENTS DE COMMUNES À FISCALITÉ PROPRE DEPUIS 2010

Au 1 <sup>er</sup> janvier	2010	2011	2012	2013	2014
Métropole	-	-	1	1	1
Communauté urbaine	16	16	15	15	15
Communauté d'agglomération	181	191	202	213	222
Communauté de communes	2 409	2 387	2 358	2 223	1 903
Syndicat d'agglomération nouvelle	5	5	5	4	4
<b>Nombre d'EPCI à fiscalité propre</b>	<b>2 611</b>	<b>2 599</b>	<b>2 581</b>	<b>2 456</b>	<b>2 145</b>
<b>Nombre total de communes</b>	<b>34 774</b>	<b>35 041</b>	<b>35 305</b>	<b>36 049</b>	<b>36 614</b>
<b>Population totale* regroupée (en millions d'habitants)</b>	<b>57,9</b>	<b>58,8</b>	<b>59,3</b>	<b>60,9</b>	<b>62,6</b>
<i>dont à fiscalité professionnelle unique :</i>					
<i>Nombre de groupements</i>	1 302	1 321	1 339	1 356	1 288
<i>Nombre total de communes</i>	17 732	18 217	18 798	20 594	22 698
<i>Population totale* (en millions d'habitants)</i>	46,4	47,6	48,5	50,5	53,2

Sources : DGCL, Insee Recensements de la population.

Champ : France.

\* Population totale, en vigueur au 1<sup>er</sup> janvier de chaque année, des communes composant les groupements.

# Why should municipalities cooperate?

- Larger spatial units are expected to be more competitive
- Economies of scale might reduce the cost of providing LPGs
- Internalizing spending spillovers, reducing tax competition behaviour...
- Reducing inequalities across municipalities

# Why do municipalities cooperate? (1)

## The economic reason?

- The loss of fiscal autonomy through devolution of competences and tax revenues to the community is compensated by the obvious financial gains from cooperation (through the **extra state grant**) and the provision of extra public goods.
- Municipalities' **fiscal revenues** are relevant to cooperation decision. If a municipality would receive higher fiscal revenue by cooperating, the propensity of this locality to cooperate is positive.

# Why do municipalities cooperate? (2)

The socio-demographic reason?

- Socio-demographic characteristics of municipalities (density, population, elderly people) nor those of their neighbours are not significant. They do not necessarily cooperate with similar municipalities.

The political reason?

- Politics do not seem to play a significant role in fiscal cooperation as opposed to municipal mergers
- Functional cooperation differs from mergers since municipalities continue to exist as entities after joining an inter-municipal. Municipal officials remain in post after joining an inter-municipal jurisdiction and keep some strategic competences within their municipal territories.



# Why do municipalities cooperate? (3)

The mimicking behavior?

- The choice to join an inter-municipal community is largely dependent on the decision of geographic neighbors.
- By law, an inter-municipal community must include contiguous localities.
- It may be stigmatizing to remain isolated when most neighboring localities have signed an intergovernmental agreement.
- Officials might be aware also that remaining isolated from an existing close community (which provides a range of good public services to firms and households) could lead to capital flight from the territory.



# The effects of fiscal cooperation on taxes and spending

- Cooperation through the creation of a new level of local government is likely to limit tax interactions among municipalities.
- This tax competition limitation seems to increase the level of local business tax rates.
- Municipal and inter-municipal public goods seem to be independently provided.
- Inter-municipal cooperation provides a way to increase the range of local public services through the supply of new indivisible public goods (zoo effect).
- Inter-municipal cooperation allow to internalize spatial spending interactions between municipalities within a same community.

# The effects of fiscal cooperation on firms locations

What happens into jurisdictions when they consolidate in urban areas?

- Tax harmonization seems to encourage plants relocation from periphery to central cities where they can take advantage from agglomeration economies
- This effect is compensated by a redistribution of plants in the periphery through inter-municipal planning scheme when the community is in charge of the economic planning.

# Conclusion (1)

What can we say about the ongoing debate on the reorganization of sub-national jurisdictions :

- Voluntary cooperation among local governments is not likely to emerge between municipalities with different levels of wealth (fiscal revenues p.c).
- In terms of public policies, state can not implement such voluntary agreement without allocating extra state grants to improve the incentives to cooperate for the richest local governments.
- Political affiliation and socio-demographic characteristics do not seem to influence the probability to cooperate.

## Conclusion (2)

- Fiscal cooperation through the creation of a new level of government has increased the level of local taxation and the level of public spending.
- The transfer of competencies from the municipal level to the inter-municipal jurisdiction has not reduced the level of municipal public services.
- Inter-municipal cooperation provides a way to increase the range of local public services through the supply of new indivisible public goods.
- The creation of a new tax rate at the inter-municipal level has not decreased the level of municipal tax rate.
- Economies of scale have not compensated this increase in the supply of public services. But what about quality?
- Fiscal cooperation through tax harmonization tends to favor plants concentration in the city centers but inter-municipal planning scheme can reverse this effect.