City of Quimper
Rating Report

SCOPE **A+** STABLE OUTLOOK

Credit strengths

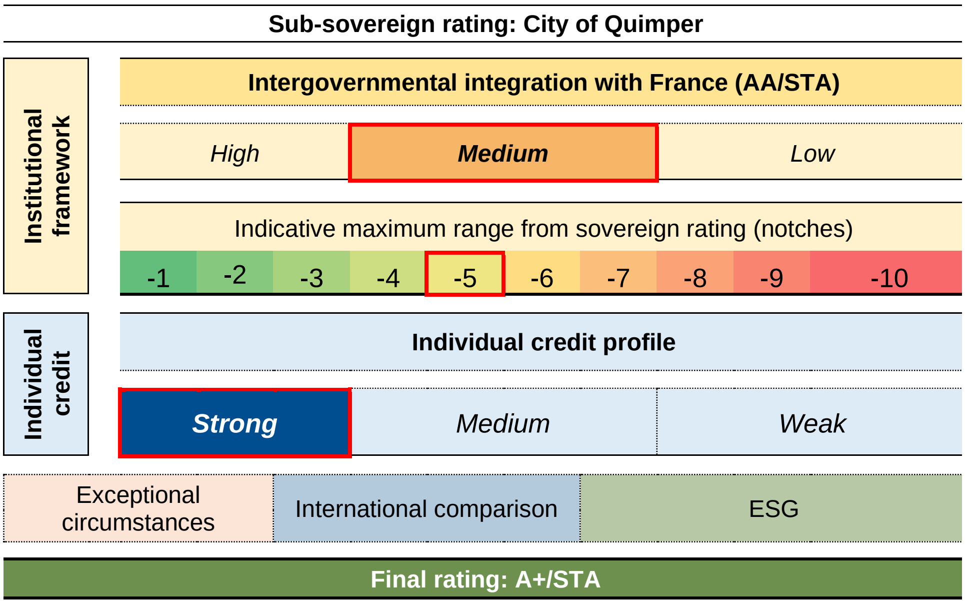
- Supportive institutional framework
- Prudent budgetary management
- Robust budgetary performance
- Favourable debt profile
- Low interest-payment burden

Credit weaknesses

- Elevated direct debt levels
- Limited budgetary flexibility
- Narrow economic base

Rating rationale and Outlook: The A+ rating reflects Quimper's strong individual credit profile, which is captured by its conservative debt management, favourable debt profile, low interest-payment burden, and prudent and effective budgetary management with a track record of high operating surpluses, allowing the city to self-finance a large share of its investments. These factors, combined with a less cyclically exposed revenue structure and a supportive institutional framework, help to limit the impact of Covid-19 on Quimper's finances. Credit challenges relate to elevated direct debt levels, limited budgetary flexibility and a narrow economic base. The Stable Outlook reflects our assessment that the risks Quimper faces remain well balanced.

Figure 1: Scope's sub-sovereign approach to rating the City of Quimper



Positive rating-change drivers

- Notable debt reduction with a firm downward trajectory
- Structural improvements in the city's budgetary performance

Negative rating-change drivers

- Notable increase of debt
- Deterioration of operating performance

Ratings & Outlook

Foreign currency

Long-term issuer rating	A+/Stable
Senior unsecured debt	A+/Stable
Short-term issuer rating	S-1+/Stable

Local currency

Long-term issuer rating	A+/Stable
Senior unsecured debt	A+/Stable
Short-term issuer rating	S-1+/Stable

Lead analyst

Jakob Suwalski
+49 69 6677389 45
j.suwalski@scoperatings.com

Team leader

Dr Giacomo Barisone
+49 69 6677389 22
g.barisone@scoperatings.com

Related Research

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13 June 2018

Scope Ratings GmbH

Neue Mainzer Straße 66-68
60311 Frankfurt am Main

Phone +49 69 6677389 0

Headquarters

Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

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Institutional framework

Integrated framework results in medium alignment of creditworthiness

The City of Quimper, like all French municipalities, benefits from a supportive institutional framework. Our expectation of institutional support from the state in cases of financial distress, as highlighted by the current Covid-19 crisis, underpins this view. In addition, the central government has assumed the role as the primary stabiliser by implementing substantial deficit spending policies to absorb the costs of higher unemployment and support economic output. Fiscal rules, the regulatory framework and government oversight are strict in an international context, favouring budgetary consolidation and promoting fiscal responsibility and transparency at the local level. In addition, the local tax revenue structure grants French municipalities high levels of budgetary flexibility compared to international peers.

However, the highly centralised nature of the French political system limits the influence of local governments on national policymaking, while the increased external budgetary pressure triggered by cuts in state transfers and the uncertainty linked to local tax reforms highlight the limits to intergovernmental integration. These considerations underpin our 'medium' assessment of the institutional framework for French municipalities, which results in a maximum indicative downward rating distance of five notches from the sovereign's rating (AA) and the rating of the individual municipality (see **Figure 2**).

Figure 2: Framework assessment

Institutional framework assessment: FRENCH MUNICIPALITIES

Category	Weight	Sub-weight		Assessment: Integration	Score	Weighted score
Institutionalised support	*50%*	*25%*	Transfer & bailout regime	**Medium**	50	13
		15%	Borrowing limits	**High**	100	15
		10%	Funding support	**Medium**	50	5
Fiscal interlinkage	*35%*	*20%*	Tax authority	**Medium**	50	10
		15%	Fiscal equalisation	**Medium**	50	8
Political coherence	*15%*	*10%*	Distribution of powers	**Medium**	50	5
		5%	Common policymaking	**Medium**	50	3
				Integration with the sovereign	**Σ**	***58***

Integration score	**0-10**	**10-20**	**20-30**	**30-40**	**40-50**	**50-60**	**60-70**	**70-80**	**80-90**	**90-100**
Indicative notch range	**0-10**	**0-9**	**0-8**	**0-7**	**0-6**	**0-5**	**0-4**	**0-3**	**0-2**	**0-1**

Source: Scope Ratings GmbH

Institutionalised support

➢ **Transfer and bailout regime**

We assess the integration of sub-sovereigns as 'high' when there is a constitutional and effective bailout rule, and/or a legislative procedure that allows for rules-based financial support in situations of budgetary emergencies. Conversely, we assess a credible no-bailout framework and/or past debt crises as indicating 'low' integration, while ad-hoc financial support qualifies for 'medium'.

No formal bailout procedure but history of support

The French framework enables some extraordinary support to be provided to sub-national governments in exceptional circumstances, but there is no formal bailout procedure. Mechanisms for providing support are partly outlined in public law – such as the provision of exceptional aid in the form of advances on tax revenues – while others are shaped by administrative practice. In addition, there are some preventive rules, including the possible placement of the local authority's accounts under the supervision of a Prefect.

Following the global financial crisis, the French central government assisted local authorities in financing their liquidity needs through advances on VAT proceeds as well as by facilitating debt negotiations with creditors. The government has mobilised liquidity support mechanisms in the context of Covid-19 and provided additional direct financial relief in the third amendment to the 2020 budget law, which includes EUR 4.5bn in fiscal support to regional and local authorities[1]. In view of the lack of a formal bailout process but given the historical evidence of discretionary support for local governments, we assess the integration of Quimper's transfer and bailout regime as 'medium'.

- **Borrowing limits**

Second, we assess intergovernmental integration as 'high' if permanent, quantitatively specified, legally binding and credible borrowing limits for central and regional governments exist. Otherwise, we assign 'medium' or 'low' integration if deficit rules have limited credibility, i.e. are self-imposed, inappropriate, and/or non-existent.

A credible framework of fiscal rules and robust oversight

French municipalities benefit from a credible fiscal framework, with a prudent fiscal policy defined at the central government level. Key features of the framework include: i) the balanced budget rule; ii) municipalities' obligation to service interest and debt repayment with their own resources; and iii) the limitation of new borrowing to finance investment expenditure only. All these factors contribute to budgetary discipline and reduce the risk of mismanagement at the local level. To allow for more budgetary flexibility in the context of the Covid-19 crisis, the government has suspended the expenditure norm, which limits annual operating expenditure growth to 1.2% per year.

Three key institutions are charged with the supervision and monitoring of municipal financial accounts: the Prefects, the Regional Chamber of Accounts (*chambres régionales des comptes*, RCAs) and the Public Accountants. The Prefects, alongside the RCAs, control local budgets to ensure budgetary decisions meet legal requirements such as the balanced budget rule. The RCAs recommend adjustments to budget proposals in instances of non-compliance. Public Accountants, mostly central government civil servants, perform the external accounting functions.

In an international context, the French central government has relatively strong oversight over local public finances. If fiscal rules are not followed by a municipality and financial distress is looming, the Prefect may take control of the municipality's public finances and impose appropriate budgetary measures. These include raising tax rates and cutting all non-mandatory expenditure (i.e. except for personnel costs and debt service). The combination of stringent fiscal rules and close central government oversight lead us to assess financial integration as 'high'.

- **Funding support**

The third criterion for institutional support relates to the degree of mutual funding support. A history of common funding and/or equal risk-weights with autonomous funding lead us to assess integration as 'high'. A 'medium' or 'low' level of integration is characterised by either federal dominance on sub-sovereign funding or autonomous funding under separate risk weights.

Access to multiple funding sources but different risk weights

French municipalities typically rely on bank-based funding. Some French municipalities benefit from access to favourable common funding with other French sub-national governments through Agence France Locale (AFL), an entity fully owned by French local authorities – including municipalities, intermunicipal groupings, *départements* and regions – and dedicated to funding them through common debt issuance. In principle, the AFL

[1] Projet de loi de finances rectificative pour 2020, n°3074

distributes loans to its members (352 local governments as of 31 December 2019) by raising funds on capital markets. French municipalities may also issue debt directly on capital markets but only large issuers typically tap this funding source. However, we note that risk weights[2] for municipalities are not aligned with the sovereign's. Funding support is therefore assessed as 'medium' for French municipalities.

Fiscal interlinkage

- **Tax authority**

First, we assess the degree of intergovernmental integration based on the division of tax authority. The higher the degree of shared decision-making on taxes, the higher we assess the level of integration across jurisdictions. One-sided dependence leads to 'medium' integration and a complete separation of tax authorities leads to an assessment of 'low' interlinkage.

High revenue flexibility but strong influence from central government

Municipal tax rates are voted on by city councils without the intervention of the state while national taxes are decided upon at the national level (i.e. separate tax authority). The remaining tax revenue is the result of tax-sharing arrangements among government tiers. National taxes such as income tax or corporate tax are decided unilaterally at central government level. French municipalities also have mandatory expenditure items, which are defined by the central government, including debt service, personnel costs and additional spending required to ensure a minimal level of public services.

We assess the integration of tax authority as 'medium', based on the central governments' ability to set the rates for major national taxes and expenditure obligations unilaterally.

- **Fiscal equalisation**

Second, we assess the extent of fiscal equalisation. Legal rules to lower differences in living standards lead to an assessment of 'high' interlinkage. Predictable redistribution payments to cover mandatory spending justify a 'medium' assessment while unpredictable or ad-hoc transfers lead to a 'low' assessment.

Fiscal equalisation generates revenue albeit with limited predictability

France operates multiple fiscal equalisation mechanisms aimed at reducing regional inequalities across its territory and compensating for the transfer of competencies. These mechanisms are governed by the French Finance Law and revised yearly. The most important source of revenue for municipalities is the *dotation générale de fonctionnement*, accounting for 82% of state transfers and intended to finance general expenses. Several additional vertical equalisation funds are available to municipalities and municipal groupings[3]. While these mechanisms provide additional resources on a timely basis to municipalities, amounting to around 18% of operating revenue in 2018, their complexity and frequent redefinition limits their predictability and effectiveness.

Central governments in France have addressed the persistent general government deficits and rising debt levels since the Great Financial Crisis via consolidation measures across all government layers. During 2014-17, central transfers to local governments decreased by over 22% to reduce central government expenditure and curb local spending growth. While the decline in state transfers has since abated, the historical precedent of the government unilaterally decreasing transfers to sub-sovereign entities creates uncertainties regarding future revenue streams. We thus view the fiscal

[2] Regulatory treatment of a sub-sovereign exposure in comparison with the respective sovereign exposure for banks, which, in the European context, is defined under the European Banking Authority's Capital Requirements Regulation (CRR)

[3] These include: the *Dotation d'intercommunalité*, the *Dotation de solidarité urbaine et de cohésion sociale*, the *Dotation de solidarité rurale* and the *Dotation nationale de péréquation*.

equalisation scheme in France as reflecting a ‘medium’ level of intergovernmental integration.

Political coherence

- **Distribution of powers**

First, we assess the degree of political coherence between government levels based on the distribution of powers. ‘High’ (‘medium’) integration is characterised by a distinct (imprecise) distribution of responsibilities. We assess integration as ‘low’ if relations are shaped by frequent conflicts and persistent separatist movements.

Distinct responsibilities but subject to change via reforms

In 2015, the *Loi NOTRe* clarified the distribution of competences across government layers. Municipal competences mostly include education, local development, road infrastructure, town planning and the management of essential services. Local authorities are also the main source of public investment in France. Although they only represented around 20% of general government expenditure, local governments accounted for 58% of public investments in 2018. The distribution of powers can be affected by changes in the national legislature, which has consequences for local competencies as exemplified by the various territorial reforms implemented in recent years. We therefore assess the distribution of powers as ‘medium’.

- **Common policymaking**

Second, we assess the degree of common policymaking as ‘high’ if legislative processes require close co-ordination between government levels. Conversely, a ‘medium’ (‘low’) assessment reflects one-sided dominance (unilateral control by the central government) in legislative processes.

Centrally concentrated decision-making powers

Although French sub-sovereigns’ financial and administrative autonomy is a constitutional right, the relevant regulations (accounting and debt regulations) and legislative powers are concentrated at the central government level with little or no influence by local authorities on the legislative process. In addition, French municipalities cannot block potentially negative consequences of reforms. An example is the campaign promise by French President Emmanuel Macron to eliminate the residency tax[4], which was strongly opposed by local officials. The residency tax is a key source of revenue for French municipalities (around a fifth of operating revenue), supporting their fiscal flexibility. Its planned elimination by 2023 highlights the central government’s one-sided dominance in national policy-making – even for issues with a significant impact on local authorities. The OECD ranks France as the 13th least decentralised country[5]. Although consultation processes between central and local government tiers exist, it is our view that municipal influence on decisions with a national scope is limited.

Individual credit profile

Strong individual credit profile

We assess Quimper’s individual credit profile as ‘strong’ in a national and international context, reflecting the city’s: i) favourable debt profile and low contingent liabilities; ii) prudent and effective budgetary management, with a solid budgetary performance; and iii) favourable regional dynamics as a key city in Brittany with access to key transport infrastructure. Key constraints are its still elevated direct debt levels and narrow economic base.

Our qualitative assessments are also informed by our Core Variable Scorecard (CVS), which highlights Quimper’s robust individual credit profile among French municipalities,

[4] See previous Scope research on this issue
[5] OECD (2016), OECD Regional Outlook 2016: Productive Regions for Inclusive Societies

underpinned by high operating surpluses compared to peers, a low interest-payment burden and a declining debt stock.

Our qualitative and quantitative assessments are summarised in **Figures 3** and **4**.

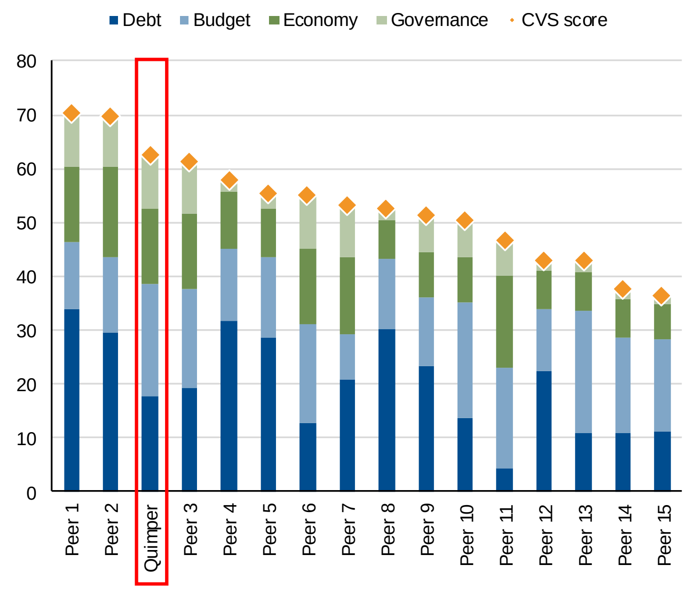
Figure 3: Qualitative Scorecard (QS) result

Individual credit profile – qualitative assessment (QS)

Category	Weight	Qualitative scorecard	Risk: *Low*	*Medium*	*High*
Debt burden and liquidity profile	*40%*	Debt profile			
		Contingent liabilities			
		Funding and liquidity			
Budget performance and flexibility	*30%*	Budget management			
		Expenditure flexibility			
		Revenue flexibility			
Economy and social profile	*20%*	Growth & diversification			
		Labour & demographics			
Quality of governance	*10%*	Recent events & policy risk			
		Transparency/accountability			

Source: Scope Ratings GmbH

Figure 4: Core Variable Scorecard (CVS) results[6]



Source: Scope Ratings GmbH

Debt burden and liquidity profile

Low interest payment burden

After peaking at 2.1% of in 2014-16, interest payments as a percentage of operating revenue declined to 1.7% in the 2019[7]. Quimper's capacity to secure low-cost financing was highlighted in September 2019 when the city took out a 15-year loan with a fixed rate of 0.47%. We thus expect the city's interest burden to continue to decline given the persistently low interest rates as well as its declining nominal debt stock.

Still elevated but declining nominal debt

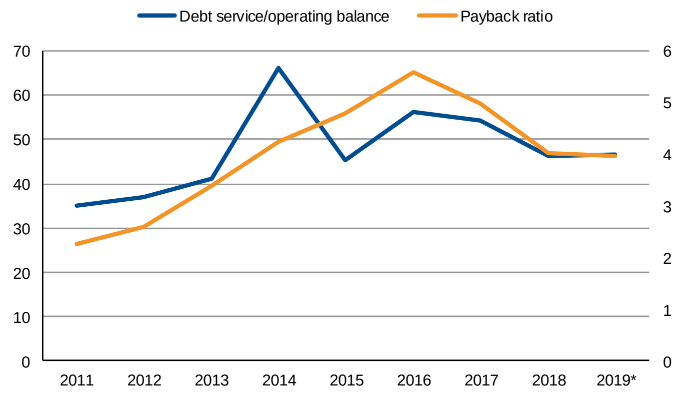
Quimper's direct debt stock remains elevated in a national and international context although we note positively a marked reduction in recent years. Following steady increases in debt levels over the past decade, Quimper's direct debt stood at around EUR 53m (or 77.9% of operating revenue) at year-end 2019, elevated in both a national and international context. Similarly, debt service relative to the operating balance was also relatively high, representing 46% in 2019 (**Figure 5)**. As a positive development, the city has managed to steadily decrease its nominal debt stock by over EUR 9m from the 2016 peak of EUR 62m or 86.4% of operating revenue (**Figure 6**). We note that the city has a self-imposed fiscal rule that aims to keep its payback ratio below eight years, well below the national regulatory threshold of 12 years[8], highlighting Quimper's prudent financial management. The city has managed to maintain its payback ratio at four years in 2018 and 2019, down from the 2016 high of 5.6 years.

The 2020 budget projects a slight increase in nominal debt as new borrowings (EUR 9.7m) are expected exceed debt redemptions (EUR 6.1m). However, the city has a history of overestimating borrowing needs and has consistently overshot budgeted operating performance. For 2020, we expect the city to self-fund more of its capital

6 CVS scores can range from 1 (weakest) to 100 (strongest); peers are selected based on population and location criteria; the peers presented in the figure were randomly selected from the peer group.
7 All figures relating to 2019 are based on preliminary estimates. Due to the Covid-19 pandemic, Quimper will publish its final accounts in July (*comptes administratifs*).
8 The 2018-22 multi-annual budget law set a national regulatory payback ratio threshold at 12 years for municipalities. Local and regional governments which are above the threshold are not eligible for certain state investment grants.

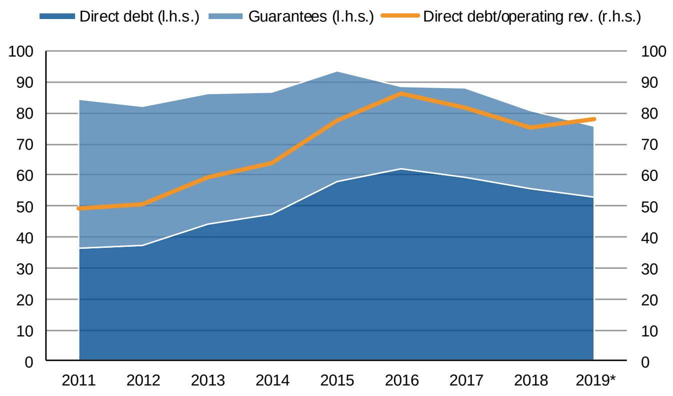
expenditure than expected, which, on top of some delay in its investment projects due to the Covid-19 pandemic, will likely result in less new borrowing than initially budgeted.

Figure 5. Debt service and payback ratio
% (l.h.s), years (r.h.s.)



* Based on preliminary estimates
Source: City of Quimper, Scope Ratings GmbH

Figure 6. Overall debt risk
EUR m (l.h.s.), % (r.h.s.)



*Based on preliminary estimates
Source: City of Quimper, Scope Ratings GmbH

Favourable debt profile

Quimper's debt profile is favourable, reflecting its prudent debt management. It has no foreign-currency debt and no short-term debt. The city faces low refinancing risks, with an average residual maturity of nine years, less than 8% of its total debt stock maturing within the next five years. Similarly, interest rate risks are low, owing to a low share of variable rates indexed on the three-month Euribor (21% of Quimper's debt). Only 2% of Quimper's debt (EUR 1m) is structured, relating to a loan taken out in 2008 that is gradually being unwound with full repayment expected by 2024. Quimper's strong debt profile is also reflected in its smooth redemption schedule with steadily decreasing annual interest and capital payments through to 2034 with no debt service peaks expected.

Declining contingent liabilities with low risks of crystallisation

Quimper's contingent liabilities – mostly loan guarantees – are moderate and have been declining steadily in nominal terms in recent years. Total outstanding loan guarantees amounted to EUR 23m at year-end 2019 (34% of operating revenue), down from EUR 48m (65.2% of operating revenue) in 2011. Most of Quimper's guarantees (98%) were granted to low-risk social housing companies for loans issued by French public development bank Caisse des Dépôts. While the economic impact of the pandemic may result in higher rent arrears, the sector's strong overall financial footing[9] along with the extraordinary support expected from Caisse des Dépôts results in limited risks to Quimper's balance sheet. According to the city, its contingent liabilities will continue as decline, aided by the transfer of social housing responsibilities to the intermunicipal group, Quimper Bretagne Occidentale.

Diversified lender base grants funding and liquidity flexibility

Quimper benefits from a well-diversified lender base and good banking relationships with nine credit institutions, including several recognised banks (e.g. Caisse d'Epargne, Crédit Agricole and Société Générale). Quimper's liquidity is supported by access to short-term external facilities with Crédit Agricole with a total drawdown amount of EUR 6m (over 10% of Quimper's annual budget). The supportive institutional framework for French municipalities further bolsters Quimper's liquidity. The city's tax income is paid monthly and is guaranteed by the government through treasury accounts (*compte au Trésor*), which smoothen out monthly cash inflows and reduce the exposure to liquidity fluctuations linked to the tax calendar. Furthermore, the central government provides an additional backstop via exceptional support to local authorities to alleviate liquidity

[9] See Banque des Territoires (2019), L'étude sur le logement social, report on the financial standing of the social housing sector

pressures or compensate for extraordinary costs linked to Covid-19 through advances on grants and tax income. We do not expect the city to face significant liquidity constraints notwithstanding government support.

Budgetary performance and flexibility

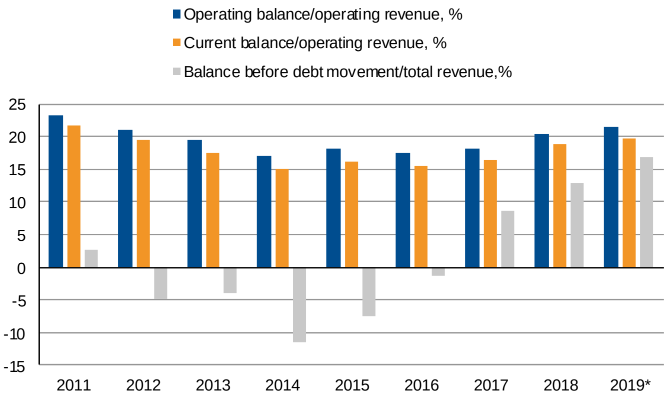
Strong operating margins provide buffer

The city's ratings are supported by a solid operating performance with a track record of strong operating margins. The city has consistently posted operating surpluses averaging 19.2% of operating revenue over the last five years. In 2019 (based on preliminary estimates), Quimper's operating performance again improved, achieving an operating surplus of 21.4% of operating revenue, the highest since 2011 (**Figure 7**)[10]. These wide operating margins provide the city with substantial budgetary buffers and enable the self-funding of investments.

Improving balance before debt movements

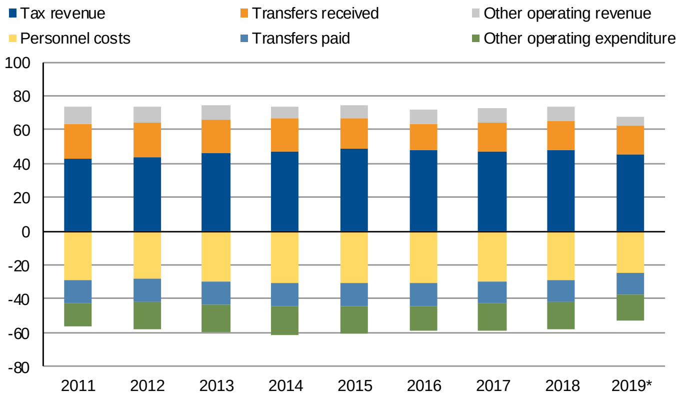
Quimper's balance before debt movement has been improving gradually in recent years, turning positive for the first time in 2017 and reaching a high of 16.8% of total revenues in 2018. This was supported by: i) improving operating performance; ii) sizeable capital revenue growth, linked to the city's estate management strategy (*stratégie patrimoniale*), through which Quimper develops industrial clusters via sales of real estate and land; and iii) lower nominal investment levels as more capital-intensive responsibilities are transferred to the intermunicipal group.

Figure 7. Budgetary performance
%



*Based on preliminary estimates.
Source: City of Quimper, Scope Ratings GmbH

Figure 8. Composition of operating balance
EUR m



*Based on preliminary estimates.
Source: City of Quimper, Scope Ratings GmbH

Prudent budgetary management

Quimper's budgetary management has been characterised by conservative and pro-active financial policies. The decline in intergovernmental transfers during 2014-17 saw a substantial reduction in income the city received from the state, by EUR 3.3m (-17%) from EUR 15.5m (**Figure 8**). The city maintained a comfortable operating surplus throughout the period, at above 17% of operating revenue, reflecting its effective budgetary management. As a result of cost containment measures and the transfer of more responsibilities to the intermunicipal group, Quimper's operating expenditure has been trending down, decreasing by 13% from 2014 to 2019.

Limited expenditure flexibility

Quimper's operating expenditure flexibility is moderate following past consolidation measures, thus constraining further reductions. In 2019, Quimper's personnel expenditure[11] represented 46% of operating expenditure (**Figure 8**), which is below the levels observed for national peers (see **Appendix**) but high in an international context.

[10] Quimper also outperforms its peers in terms of operating performance (see **Appendix**).
[11] Mandatory spending items for French municipalities limit expenditure flexibility and include i) debt servicing costs; ii) personnel costs; and iii) other spending related to essential public services.

The rigid operating expenditure structure is mitigated by a high share of capital expenditure as a percentage of total expenditure, which has increased in recent years and reached 25% in 2019, the highest level since 2015. The high level of investments provides Quimper with some budgetary leeway in cases of financial stress.

Improving but constrained revenue flexibility

Quimper's revenue flexibility has improved over the past decade but remains constrained. Tax income as a percentage of operating revenue steadily increased from 57.8% in 2011 to 67.3% in 2019 while the dependency on state transfers declined. Nevertheless, the high revenue flexibility afforded by Quimper's revenue structure is, in our view, limited by the city's commitment since 2014 to maintaining its tax rates unchanged since 2014 which are already above the national average. This, coupled with a deteriorating economic outlook, could make any future tax hikes politically costly, limiting the ability to increase revenues.

The Covid-19 pandemic will impact the 2020 budget…

The 2020 budget projected an operating surplus of 17.2% of operating revenue, a slight deterioration compared to the 2019 preliminary estimates, due to lower revenues (-10.7%) outweighing the budgeted decrease in expenditure (-7.1%). However, we note that the city employs prudent budgetary and financial planning and tends to underestimate revenues and overestimate expenditures[12]. The Covid-19 pandemic will have some adverse budgetary impact due to: i) lower fee and tax income related to the provision of certain services and business activity taxes; ii) higher costs in some areas linked to the provision of extraordinary services during the lockdown period; and iii) the city's implementation of economic support measures for local businesses and residents. This will be mitigated, however, by a reduction in costs related to short-term and temporary employment contracts and in other operating expenditure owing to public services being limited during the lockdown.

…but considerable buffers limit impact on Quimper's finances

In our view, the Covid-19 pandemic will have a limited impact on Quimper's overall budgetary performance thanks to its considerable budgetary and institutional buffers. In line with other French municipalities, Quimper's budget is less cyclically exposed than other government tiers. This is due to its high share of operating revenue from residency and property taxes (62% of operating revenue), whose fiscal base – registry rental values – is typically insulated from economic shocks. State transfers (22% of operating revenue) provide an additional buffer and are expected to increase relative to the budget in view of the government's recently announced EUR 4.5bn support package for regional and local authorities[13]. The city's latest impact analysis foresees a reduction in operating revenue of around EUR 1.8m (2.7% of budgeted operating revenue) but also lower costs by EUR 0.5m (1.0% of budgeted operating expenditure). This would result in an operating balance of around 16% of operating revenue, only slightly below the budgeted 17% operating margin. These factors underpin our view that the risks stemming from the Covid-19 pandemic to Quimper's finances are limited.

Economy and social profile

Narrow economic base remains a credit constraint

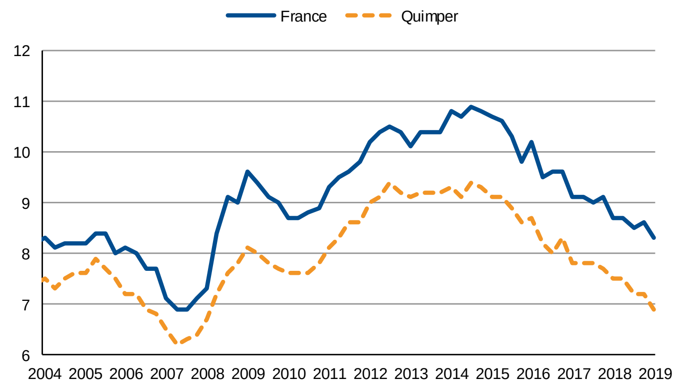
With a total population of 66,743 in 2019, the city's credit rating is constrained by a narrow economic base, which heightens its sensitivity to budgetary shocks and adverse demographic developments. The city's population has been broadly stable in recent years, rising only 0.1% per year on average over 2011-16, driven entirely by positive net migration. In addition, the population is ageing, with the median age increasing from 36 years in 1999 to over 42 years in 2015, in line with the national average. Adverse demographic developments through an increase in emigration, for example, could have negative credit implications given the city's small size.

[12] Over 2017-19, Quimper's operating revenue was 5% higher than budgeted on average while operating expenditure was 3% lower.
[13] French Parliament (2020), 3ème Projet de loi de finances rectificative pour 2020

Regional factors and city's policies are credit-positive

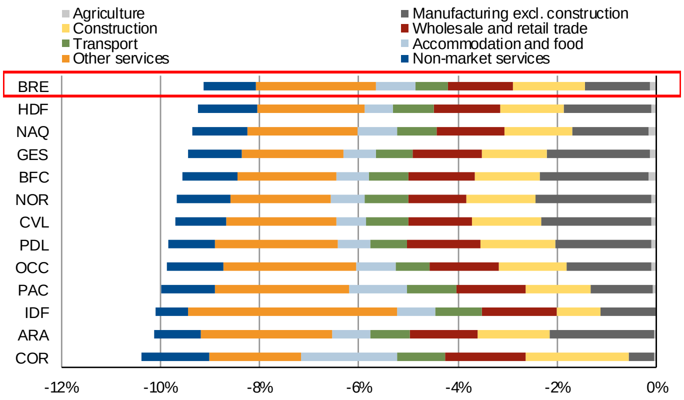
Quimper is a major city in Brittany, benefitting from a developed transport infrastructure including an airport (fifth largest in Brittany) and a commercial harbour (sixth largest). Quimper thus benefits from positive regional dynamics, with Brittany among the French regions with the strongest real GDP growth rates over 2016-18, averaging 2.3% (above the 1.4% French regional average). This is also reflected in the local labour market, with the city consistently outperforming the national average in terms of unemployment, at 6.9% at year-end 2019 or 1.4pps below that of France (**Figure 9**). The city has adopted several credit-positive policies to attract more tourists and residents, including improving mobility and public transport access to the city centre, developing housing infrastructure, and providing tax incentives for new businesses. In 2020, the intermunicipal grouping began construction on a multimodal transport hub in a bid to draw more tourists and residents to the city. In February 2019, the city's efforts to revitalise its city centre led Procos, a French association of retail trade companies, which ranked Quimper second among 74 medium to large French cities for improved commercial dynamism[14].

Figure 9. Unemployment rate
%



Source: INSEE, Scope Ratings GmbH

Figure 10. 2020 GDP growth – sectoral impact
%



Source: INSEE, Scope Ratings GmbH

Covid-19 weakens near-term outlook but Brittany is least affected

The Covid-19 pandemic will lead to a significant near-term deterioration in economic conditions across the French territory. We estimate French real GDP to shrink by around 11.4% in 2020. Among French regions, Brittany is one of the best-placed to withstand the pandemic's knock-on effects. This is due to its economic structure, with a higher share in regional GDP of agriculture and agribusiness, which has been essentially unaffected during the lock-down[15]. We expect Brittany's real GDP growth in 2020 at around -10.7%, the lowest decline of all regions in metropolitan France (**Figure 10**). With an economy less affected by the lockdown measures, the government's multiple support packages and the region's track record of outperforming other French regions, we expect Brittany to rebound strongly in 2021 absent a second wave of the pandemic.

Local administration and politics

Strong governance and accountability

Quimper, in line with other French local governments, has high levels of transparency and accountability. City council meetings are open to the public and take place 8-10 times a year. Deliberations dating back to 1996 are also available on the city's website. Oversight on the city's budgets is mainly undertaken by the regional Prefect and the Regional Chamber of Accounts, which makes its reports public, while assessments of the city's policies (e.g. urban planning) are commissioned occasionally.

[14] Procos, Palmares Procos 2019 des centres-villes commercants, February 2019
[15] INSEE (2020), Conjoncture Bretagne Juin 2020

Active policy response to Covid-19 crisis

The city has been active in combating the coronavirus and supporting local communities. Among its measures are the purchase of protective masks and other sanitary products, the provision of free childcare to essential workers, and an increase in food subsidies for vulnerable households.

Quimper also benefits from strong regional governance indicators. This view is underpinned by Brittany's high scores in a national and international context in the European Quality of Government Index, which captures the average citizen's perception of corruption in a region as well as the quality and impartiality of its public services. Brittany outperforms all French regions on all dimensions of this index.

2020 municipal elections result in a change in leadership

On 28 June 2020, local elections renewed Quimper's municipal council which resulted in a change in the city's leadership. The leftist-green coalition *Quimper Ensemble*, led by Isabelle Assih, secured 51.25% of votes, outperforming the incumbent mayor, Ludovic Jolivet, which received 39.53% of votes. We expect the city's new leadership to focus on environmental and social issues while also aiming to promote the city's attractiveness and dynamism. Key policy proposals include: a 100% renewable energy target by 2050; the increase of participatory budgets to EUR 400,000 per year to be allocated by a council made up of citizens; and a target of 500 additional residences (30% of which social housing) per year.

Additional considerations

Review of exceptional circumstances

Following a review of potentially exceptional circumstances that cannot be captured by the quantitative and qualitative scorecards, we have not adjusted Quimper's indicative rating of A+.

International comparison

Quimper's individual credit profile compares favourably in an international context. This is supported by i) a strong budgetary performance, including robust operating margins and a high investment level; ii) favourable socio-economic indicators with low unemployment; and iii) strong governance indicators.

Long-term environmental and social risks

Alongside our assessment of rating-relevant credit risks, we consider long-term environmental and social developments. We assess developments regarding French municipalities by analysing environmental and social policies at the local level as well as regional sustainability indicators.

With regards to environmental indicators, the Climate Group states that Brittany emits around 20.5m tonnes of greenhouse gases each year, representing around 4.4% of France's total emissions. The region targets a reduction in greenhouse gas emissions of 20% by 2020 and 80% by 2050, in line with current EU targets. Brittany also aims to produce a fifth of its primary energy and over a third of its electricity from renewable sources by 2020. In line with these aims, Quimper has invested to improve the energy efficiency of public buildings and achieve higher standards of sustainability.

With regards to social policies, the city's social cohesion benefits from the extensive presence of social and cultural associations as well as its own social welfare centre.

Methodology

The methodology applicable for this rating and/or rating outlook, the Sub-Sovereign Credit Rating Methodology, published on 18 May 2020, is available on www.scoperatings.com.

Historical default rates of the entities rated by Scope Ratings can be viewed in the rating performance report on https://www.scoperatings.com/#governance-and-policies/regulatory-ESMA. Please also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerepweb/statistics/defaults.xhtml. A comprehensive clarification of Scope's definition of default as well as definitions of rating notations can be found in Scope's public credit rating methodologies on www.scoperatings.com.

The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months.

I. Appendix: CVS/QS results and mapping table

Individual credit profile: City of Quimper

Category	Weight	QS	Risk	Score	CVS	Score	Weight	Total (CVS + QS)
Debt burden and liquidity profile	*40%*	Debt profile	Low	100	Interest, % operating revenue	34	*50%*	64
		Contingent liabilities	Low	100	Debt, % operating revenue	46	*25%*	
		Funding and liquidity management	Medium	50	Balance before debt, % operating revenue	62	*25%*	
		Debt QS score	**Σ**	**83**	***Debt CVS score***	**Σ**	**44**	
Budget performance and flexibility	*30%*				Operating balance, % operating revenue	96	*40%*	68
		Budget management	Low	100	SD operating balance	20	*15%*	
		Expenditure flexibility	Medium	50	Personnel expenditure, % operating expense	80	*15%*	
		Revenue flexibility	Medium	50	Capex, % total expense	57	*15%*	
					Transfers, % operating revenue	54	*15%*	
		Budget QS score	**Σ**	**67**	***Budget CVS score***	**Σ**	**70**	
Economy and social profile	*20%*				GDP per capita	100	*40%*	60
		Growth and diversification	Medium	50	Unemployment rate	100	*20%*	
		Labour market & demographics	Medium	50	GDP volatility	1	*20%*	
					Old-age dependency ratio	51	*20%*	
		Economy QS score	**Σ**	**50**	***Economy CVS score***	**Σ**	**70**	
Quality of governance	*10%*				Quality	100	*33%*	88
		Recent events and policy risk	Medium	50	Impartiality	100	*33%*	
		Transparency and accountability	Low	100	Corruption	100	*33%*	
		Governance QS score	**Σ**	**75**	***Governance CVS score***	**Σ**	**100**	
					Individual credit profile	**Σ**		***67***

Indicative sub-sovereign rating			Individual credit profile: Strong ≥ 75	Strong ≥ 65	Medium ≥ 55	Medium ≥ 45	Medium ≥ 35	Weak ≥ 25	Weak < 25
			Indicative maximum notch adjustment from sovereign rating:						
Institutional framework: integration with sovereign	Full	0 - 1	0	0	0	-1	-1	-1	-1
		0 - 2	-1	-1	-1	-1	-1	-2	-2
		0 - 3	-1	-1	-1	-2	-2	-2	-3
	Medium	0 - 4	-1	-1	-2	-2	-3	-3	-4
		0 - 5	-1	-2	-2	-3	-3	-4	-5
		0 - 6	-2	-2	-3	-3	-4	-5	-6
		0 - 7	-2	-2	-3	-4	-5	-5	-7
	Low	0 - 8	-2	-3	-4	-4	-5	-6	-8
		0 - 9	-2	-3	-4	-5	-6	-7	-9
		0 - 10	-3	-4	-5	-6	-7	-8	-10

II. Appendix: Peer comparison[16]

Figure 11. Debt/operating revenue

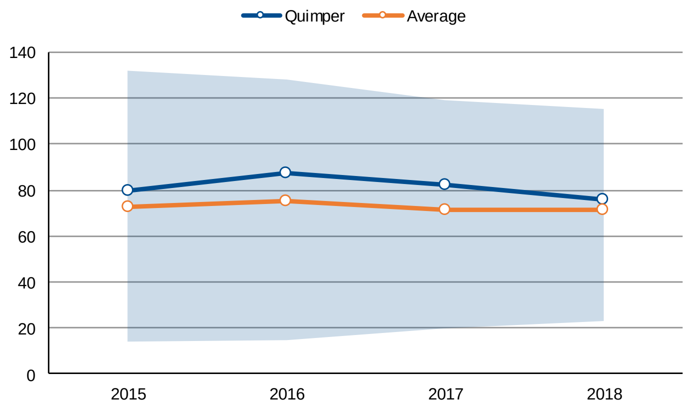


Figure 12. Financial charges/operating revenue

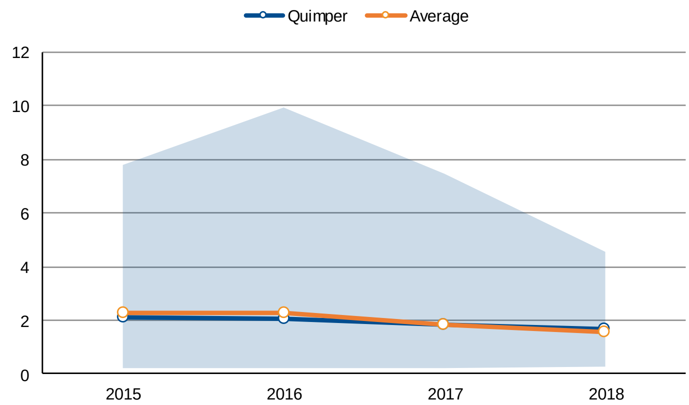


Figure 13. Operating balance/operating revenue, %

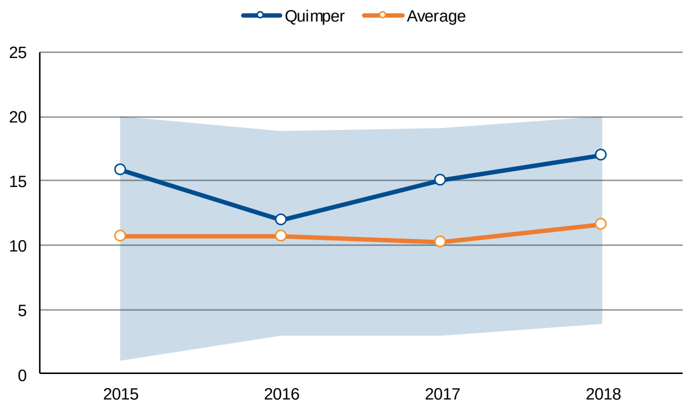


Figure 14. Balance before debt movement/total revenue

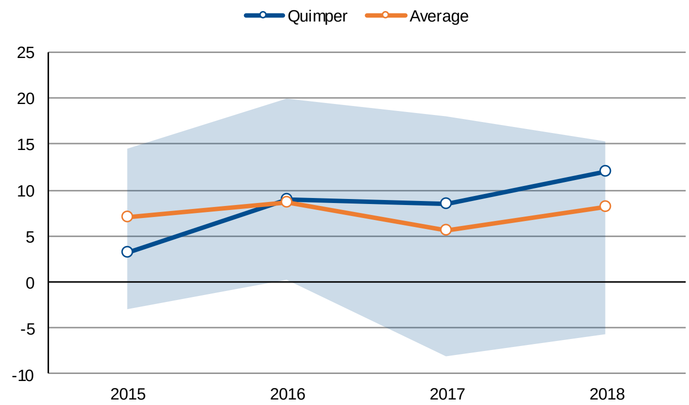


Figure 15. Personnel costs/operating expenditure

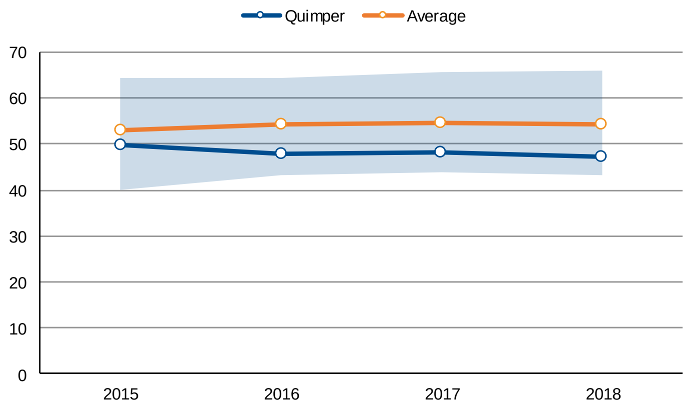
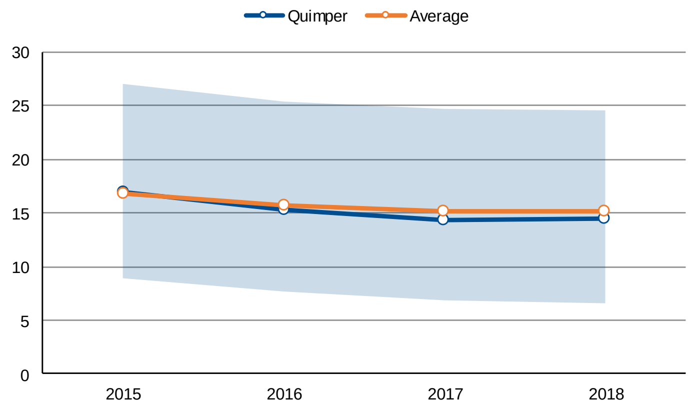


Figure 16. Transfers/operating revenue



Source : Direction Générale des Finances Publiques

[16] Figures sourced from the Direction Générale des Finances Publiques' centralised database and may differ from those reported in Quimper's financial accounts.

III. Appendix: Statistical tables

	2012	2013	2014	2015	2016	2017	2018	2019*
Financial performance	Numbers are in EUR '000s (unless otherwise noted)							
Operating revenue	73,659	74,446	74,000	74,485	71,847	72,399	73,602	67,971
Operating revenue growth, %	*-0.3%*	*1.1%*	*-0.6%*	*0.7%*	*-3.5%*	*0.8%*	*1.7%*	*-7.7%*
Tax revenue	44,079	46,165	47,364	48,487	47,627	47,106	48,202	45,749
Allocations and grants	20,080	20,072	19,494	18,689	15,535	16,728	16,979	17,035
Other operating revenue	9,500	8,208	7,142	7,310	8,685	8,565	8,421	5,187
Operating expenditure	58,133	59,921	61,333	60,889	59,278	59,187	58,536	53,444
Operating expenditure growth, %	*2.5%*	*3.1%*	*2.4%*	*-0.7%*	*-2.6%*	*-0.2%*	*-1.1%*	*-8.7%*
Personnel	28,044	29,673	30,663	30,791	30,504	29,953	29,293	24,454
General expenses	14,519	14,759	15,183	13,974	14,158	15,739	15,422	15,062
Allocations and grants	13,750	14,001	14,204	13,810	13,908	13,082	12,997	12,913
Other operating expenditure	1,819	1,488	1,284	2,315	707	413	825	1,015
Operating balance	15,527	14,525	12,667	13,596	12,570	13,213	15,066	14,527
Interest paid	1,140	1,463	1,544	1,536	1,475	1,339	1,245	1,167
Current balance	14,387	13,062	11,123	12,060	11,095	11,874	13,821	13,360
Capital revenue	6,974	6,590	6,555	7,147	6,534	13,249	14,051	18,551
Capital expenditure	25,310	22,887	26,966	25,385	18,646	17,619	16,625	17,381
Capital balance	-18,337	-16,298	-20,411	-18,238	-12,112	-4,371	-2,573	1,170
Balance before debt movement	-3,949	-3,236	-9,288	-6,178	-1,018	7,503	11,247	14,530
New borrowing	11,502	11,500	10,000	15,000	10,000	3,003	2,006	4,426
Debt redemption	4,623	4,538	6,822	4,642	5,585	5,835	5,732	5,596
Overall result	2,930	3,726	-6,110	4,180	3,397	4,672	7,521	13,360
Financial ratios								
Balance before debt movement/total revenue, %	-4.9%	-4.0%	-11.5%	-7.6%	-1.3%	8.8%	12.8%	16.8%
Operating balance/operating revenues	21.1%	19.5%	17.1%	18.3%	17.5%	18.2%	20.5%	21.4%
Interest paid/operating revenue, %	1.5%	2.0%	2.1%	2.1%	2.1%	1.8%	1.7%	1.7%
Current balance/operating revenue, %	19.5%	17.5%	15.0%	16.2%	15.4%	16.4%	18.8%	19.7%
Capital expenditures/total expenditures	29.9%	27.2%	30.0%	28.9%	23.5%	22.5%	21.8%	24.1%
Personnel costs/operating expenditure	48.2%	49.5%	50.0%	50.6%	51.5%	50.6%	50.0%	45.8%
Transfers/operating revenue	27.3%	27.0%	26.3%	25.1%	21.6%	23.1%	23.1%	25.1%
Current balance as a % of capex	56.8%	57.1%	41.2%	47.5%	59.5%	67.4%	83.1%	76.9%
Debt ratios								
Direct debt	37,185	44,146	47,324	57,682	62,097	59,262	55,530	52,934
Direct debt growth, %	*2.0%*	*18.7%*	*7.2%*	*21.9%*	*7.7%*	*-4.6%*	*-6.3%*	*-4.7%*
Direct debt/total revenue, %	46.1%	54.5%	58.7%	70.7%	79.2%	69.2%	63.4%	61.2%
Debt /operating revenues	50.5%	59.3%	64.0%	77.4%	86.4%	81.9%	75.4%	77.9%
Net interest payments/direct debt, %	3.1%	3.3%	3.3%	2.7%	2.4%	2.3%	2.2%	2.2%
Debt service/operating balance	37.1%	41.3%	66.1%	45.4%	56.2%	54.3%	46.3%	46.6%
Payback ratio (direct debt/current balance)	2.58	3.38	4.25	4.78	5.60	4.99	4.02	3.96
Socio economic indicators								
Population	66,911	67,131	66,826	66,900	66,900	66,979	66,959	66,743

*2019 figures are based on preliminary estimates. Quimper will publish its official financial results for 2019 in July.
Source: City of Quimper, Scope Ratings GmbH

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Paris

1 Cour du Havre
F-75008 Paris

Phone +33 1 8288 5557

London

3rd Floor
111 Buckingham Palace Road
UK-London SW1W 0SR

Phone +44 20 3457 0444

Madrid

Paseo de la Castellana 95
Edificio Torre Europa
E-28046 Madrid

Phone +34 914 186 973

Milan

Via Paleocapa 7
IT-20121 Milan

Phone +39 02 30315 814

Oslo

Haakon VII's gate 6
N-0161 Oslo

Phone +47 21 62 31 42

info@scoperatings.com
www.scoperatings.com

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