City of Quimper Rating Report

A+ STABLE OUTLOOK

Credit strengths

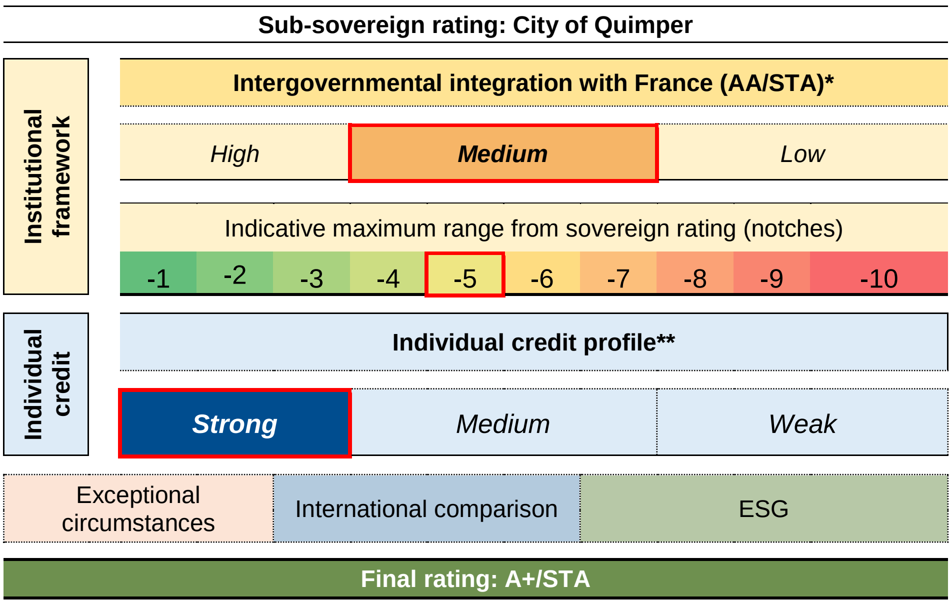
- Solid budgetary performance
- Low interest payment burden
- Favourable debt profile

Credit weaknesses

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

Rating rationale and Outlook: The A+ rating reflects the City of Quimper's strong individual credit profile, captured by the city's low interest-payment burden, favourable debt profile and solid budgetary performance, underpinned by high operating margins. In addition, the rating is underpinned by a credible fiscal framework which contributes to budgetary discipline at the local level, with a prudent fiscal policy defined at the central government level. Constraints to Quimper's rating relate to its elevated direct debt levels, limited budgetary flexibility and the city's narrow economic base which increase its sensitivity to budgetary shocks. 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



*Across countries per government layer

**Across national peers (French municipalities)

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

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Related Research
France's residency tax reform poses risks at the local and national level
13 June 2018

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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. Following several territorial reforms in France, we expect the institutional framework to remain stable, apart from the local tax reform. 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 centralised nature of the French political system limits the influence of sub-sovereigns on national policymaking, while increased external budgetary pressure triggered by cuts in state transfers highlights the limits to intergovernmental integration. These considerations underpin our 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	Assessment: 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 provides some extraordinary support to subnational governments in exceptional circumstances, but there is no formal bailout procedure in instances of financial difficulties. 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 credit needs through advances on VAT proceeds as well as by facilitating debt negotiations with creditors. In view of the lack of a formal bailout process but given 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.

The supervision and monitoring of municipal financial accounts are conducted through three key institutions: 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 that 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 external accounting functions.

In an international context, the French central government has effective 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 off all expenditure except for mandatory items such as 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

While French municipalities are not allowed to engage in deficit financing, they can access multiple funding sources to finance investments without central government approval. On top of their own revenue resources and state transfers, French municipalities typically rely on bank-based funding for their investment expenditure. French municipalities benefit from access to favourable common funding with other French subnational governments. The 26 July 2013 banking law authorised the creation of *Agence France Locale (AFL)*, an entity fully owned by French local authorities – including municipalities, intermunicipal groupings, *départements* and regions – and dedicated to their funding through common debt issuance. In principle, the AFL distributes loans to its members (292 local governments in 2018) by raising funds on capital markets. French municipalities may also issue debt directly on capital markets but this option is typically available to large issuers. However, risk weights[1] for municipalities

[1] 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).

are not aligned with the sovereign. 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 of 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 revenues are the result of tax sharing arrangements between government tiers. National taxes such as the income tax or the corporate tax are decided unilaterally at the central government level. French municipalities also have mandatory expenditure items, which are set by the central government including: debt servicing costs, personnel costs and additional spending required to ensure a minimal level of public services.

Fiscal consolidation efforts put pressure on local finances

An expenditure norm intended to limit annual expenditure growth to 1.2% was implemented by the central government in 2014. Local fiscal consolidation remains a key element in the current government's strategy to strengthen public finances. President Macron has asked local authorities to make EUR 13 bn in savings by 2022 and has signed legally-binding contracts with several of the largest subnational governments (230 as of June 2018) to ensure the expenditure norm is respected. In our view, pressure on local government budgets is likely to persist moving forward as the French government strives to achieve its objectives to lower expenditure-to-GDP and debt-to-GDP ratios by 3 pps and 2 pps respectively by the end of its term.

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 on a yearly basis. 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 exist for municipalities and municipal groupings[2]. While these mechanisms provide additional resources on a timely basis to municipalities – amounting to around 18% of operating revenue in 2017 – their complex structure and frequent redefinition limits predictability and effectiveness. The OECD has stated that the French municipal equalisation scheme reduces fiscal disparities by one-third which is moderate in an international context[3].

[2] 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.
[3] OECD (2014), Fiscal Federalism 2014: Making Decentralisation Work.

Central governments in France have addressed persistent general government deficits and rising debt levels since the 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. We view the fiscal 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 19% of general government expenditure, local governments accounted for 54% of public investments in 2018. The distribution of powers can be subject to changes in national legislature with consequences for local competencies. as exemplified by the recent residency tax reform which was strongly opposed by local officials. 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 principle, 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 of this is the elimination of the residency tax – one of president Macron's campaign promises[4]. The residency tax is a key source of revenue for French municipalities (around a fifth of operating revenue), supporting fiscal flexibility. Its planned elimination for 80% of private households, scheduled for 2020, followed by its complete suppression by 2023, highlights one-sided central government dominance in national policy-making – even including issues which impact local authorities significantly. Therefore, France remains a highly centralised nation despite recent policy efforts towards decentralisation. The OECD ranks France 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 of national scope is limited.

Individual credit profile

Strong credit profile in comparison with national peers

We assess Quimper's individual credit profile as strong owing to the city's low interest-payment burden and solid operating performance. This reflects Quimper's: i) favourable debt profile and low contingent liabilities; ii) solid budgetary performance, underpinned by

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

good revenue flexibility in an international context and high operating surpluses compared to national peers; iii) expected political stability and policy continuity at the local level compared to other French municipalities. Key constraints to Quimper's individual credit profile are its elevated debt burden and narrow economic base which increase budgetary sensitivity to changes in economic conditions given the city's limited expenditure flexibility.

Our qualitative assessments are also informed by our core variable scorecard (CVS) which highlights Quimper's robust individual credit profile among French municipalities, underpinned by strong budgetary performance. Quimper also benefits from favourable regional dynamics as a key city in Brittany whose governance indicators compare favourably in a national and international context.

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

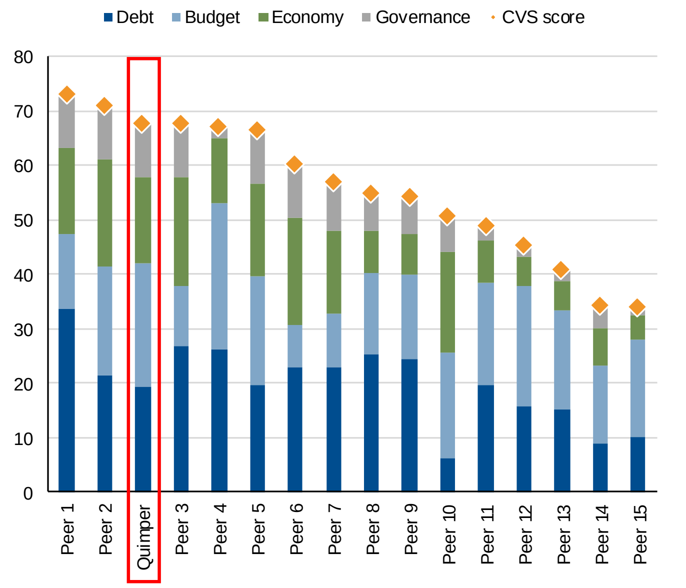
Figure 3: Qualitative scorecard (QS) result

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) result[6]



Source: Scope Ratings GmbH

Debt burden and liquidity profile

Low interest-payment burden and favourable debt profile

Quimper benefits from a low interest-payment burden, underpinned by a favourable debt profile. Interest payments as a percentage of operating revenue declined to 1.7% of operating revenue in 2018, down from a peak of 2.1% in the 2014-16 period (**Figure 5**). As a result of solid debt management, Quimper enjoys a favourable debt profile, with no foreign-denominated debt or short-term debt and an average life of around 5.2 years, which reduces refinancing risks. Similarly, interest rate risks are limited, reflected by a low share of variable rates indexed on 3M Euribor (22.5% of Quimper's debt). In addition, less than 3% of Quimper's debt is structured and related to a loan taken out in 2008 that the city is gradually unwinding. Our low risk assessment for Quimper's debt profile is also underpinned by the *Chambre régionale des comptes de Bretagne* which stated in its 2015 report that Quimper's debt was "essentially without risk".

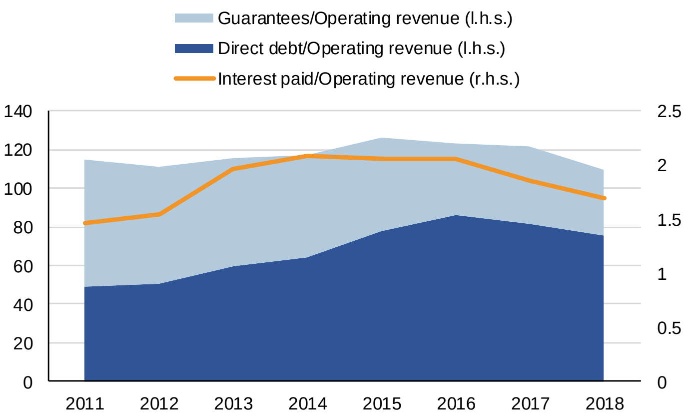
Nominal debt reduction in 2017 and 2018

Quimper's direct debt stock remains elevated in a national and international context. Following steady increases in debt levels over the past decade, Quimper's direct debt stood at around EUR 56m (or 75.4% of operating revenue) at year-end 2018, up from

[6] CVS scores can range from 0 (weakest) to 100 (strongest); peers are selected based on population and location criteria.

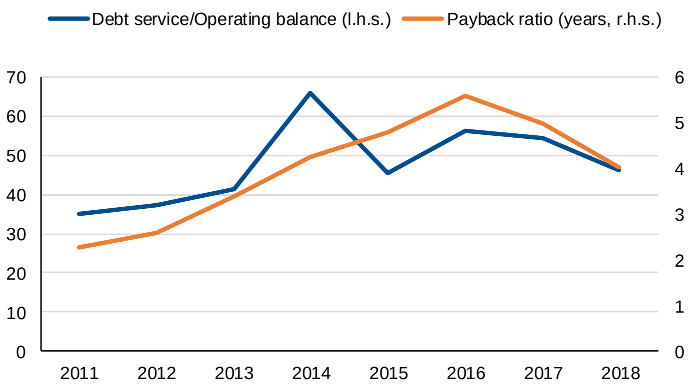
EUR 37m (or 50.5%) in 2012. Similarly, debt service is high relative to the city's current operations, representing 46.3% of the operating balance in 2018 (**Figure 6**). As a positive development, we note that the city's nominal debt levels decreased in 2017-18, driven by a net debt redemption of EUR 6.6m. However, the 2019 budget projects a slight increase in nominal debt as new borrowing (EUR 9m) is expected to be above debt redemption (EUR 6m). As a result of nominal debt reduction along with strong capital revenue growth in 2017/2018, Quimper's payback ratio was low at 4 years at year-end 2018, well below the city's self-imposed threshold of 8 years. We note positively that this self-imposed fiscal rule is more stringent than the national regulatory threshold of 12 years laid out by the Loi de programmation des finances publiques 2018-2022.

Figure 5. Overall debt risk and interest payment burden
% (l.h.s.), % (r.h.s.)



Source: City of Quimper, Scope Ratings GmbH

Figure 6. Debt service and payback ratio
% (l.h.s), years (r.h.s.)



Source: City of Quimper, Scope Ratings GmbH

Solid access to external liquidity and bank loans

Access to external liquidity, if required, is available at short notice via credit facilities from various major financial institutions. Quimper also enjoys a well-diversified borrowing base and good relationships with nine credit institutions including several recognised banks (e.g. Société Générale, Crédit Agricole and Caisse d'Epargne). In addition, Quimper benefits from liquidity access to national treasury accounts. High outflows during the year are driven by the tax calendar and typically covered by credit from the national treasury. We note that the city's monthly cash position fluctuates significantly over the course of the year.

Moderate and further declining contingent liabilities

We assess the risks associated with Quimper's explicit and implicit guarantees as moderate. Outstanding guarantees have been declining steadily in recent years, coming down from EUR 48.1m (65.2% of operating revenue) in 2011 to EUR 25.2m (34.3% of operating revenue) in 2018. The reduction of issued guarantees has been supported by transfer of responsibilities to the intermunicipal grouping, Quimper Bretagne Occidentale. According to the city's plans, the stock of contingent liabilities outstanding will continue to decline.

Low risk of materialisation of debt contingencies

Most of the guarantees were granted to low-risk social housing institutions which fulfil a strategic purpose. Quimper is also a minority shareholder in two semi-public enterprises: a EUR 56,300 stake in SAFI (Quimper's share is 4.2% of the capital) and a EUR 107,000 stake in SemBreizh (Quimper's share is 1.7% of the capital). Both companies are responsible for land planning, construction, real estate and regional development in Brittany. Guarantees for debt held by social housing associations are not relevant to Quimper's budget, in our opinion, because the associations generate stable rent income. The favourable regional economic outlook, which we anticipate will continue to support property values, makes it less likely that the city will have to honour the guarantees related to real estate transactions.

Budgetary performance and flexibility

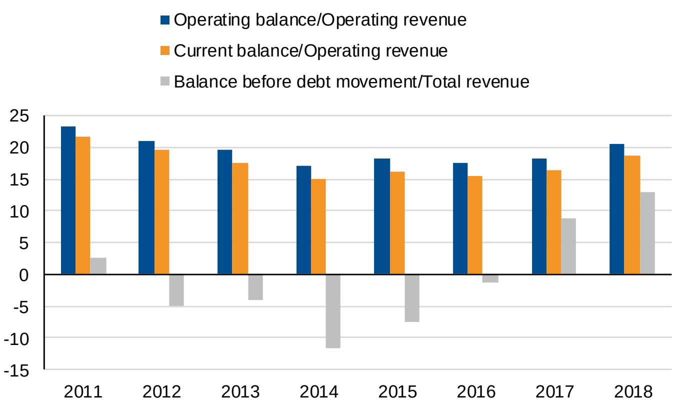
Robust operating margins

The city's ratings continue to be supported by its ability to maintain a solid operating performance with strong operating margins, serving as a buffer against adverse budgetary developments and enabling the city to make investments with a limited recourse to debt. The city has consistently generated operating surpluses with an average operating balance of 18.3% of operating revenue over the past five years (**Figure 7**). In 2018, Quimper continued its strong operating performance with a high operating surplus of 20.5% of operating revenue (the highest since 2012), well above the budgeted target of 12.9%.

Balance before debt movement supported by rising capital revenue

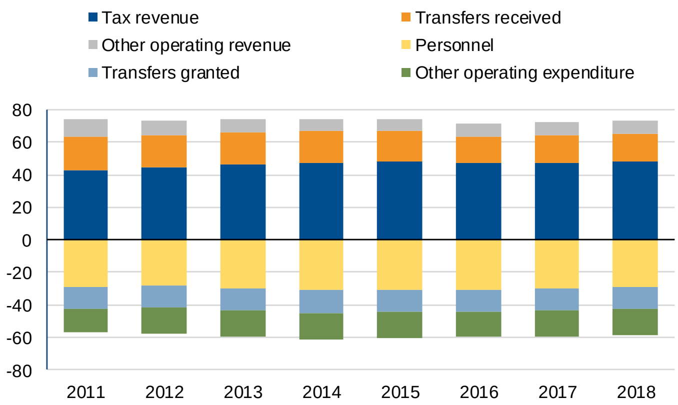
Moreover, Quimper's balance before debt movement has been improving gradually, turning positive for the first time in 2017 and reaching 12.8% of total revenues in 2018. This was supported by sizeable capital revenue growth. In the context of the city's *Strategy Patrimoniale* and economic development policies, Quimper has been engaged in the sale of real estate assets as well as land to develop industrial estates.

Figure 7. Budgetary performance
%



Source: City of Quimper, Scope Ratings GmbH

Figure 8. Composition of operating balance
EUR m



Source: City of Quimper, Scope Ratings GmbH

Conservative budgetary management

Quimper, in line with other French municipalities, faced a significant drop in revenue with incoming transfers decreasing by over EUR 3.3m (-16.7%) from the beginning of 2014 to year-end 2017 (see **Figure 8**). The 2014-17 period was characterised by decreased state transfers as the central government was implementing its strategy to consolidate general government finances, favouring budgetary consolidation at the subnational level. In our opinion, the fact that Quimper managed to maintain a stable operating surplus despite decreasing state transfers over the 2014-17 period reflects the city's effective budgetary management in the face of external budgetary pressure. As a result of continuous cost management, operating expenditure has been on a downward trajectory over the past four years, decreasing by 4.6 pps from 2014 to 2018 thanks in part to the city's efforts to lower personnel expenses (-4.5 pps over the same period) as well as cuts in subsidies granted to local associations (-8.5 pps).

Limited expenditure flexibility

In our opinion, Quimper's expenditure flexibility is limited in view of the rigid expenditure structure, thus constraining further reductions in operating expenditure. In 2018, Quimper's personnel expenditure[7] represented 50% of operating expenditure (**Figure 8**),

[7] Mandatory spending items for French municipalities include i) debt servicing costs, ii) personnel costs and iii) other spending related to the provision of essential public services, limiting their expenditure flexibility.

which was below the levels for national peers but still high in an international context. Another main component of Quimper's expenditure structure is outgoing transfers (22.2% of operating expenditure in 2018). Quimper has numerous cultural and sporting associations which, on top of its social welfare centre (CCAS), explain the high levels of transfers granted. These transfers are considered as key pillars of the city's social policies, contributing to social cohesiveness which supports our view that the city will maintain them moving forward. Furthermore, capital expenditure as a percentage of total expenditure has decreased since 2014 as the city adapted to decreasing state transfers. Investments dropped from 30.5% in 2014 to 22.1% in 2018, thus further weighing on expenditure flexibility.

Continued cost containment

We note positively that the city continues to adopt a proactive stance with regard to savings. In June 2018, Quimper voluntarily signed a contract with the state to contain its annual expenditure growth at 1.2% a year on average. The city is also implementing a strategy to optimise its use of real estate. It has been decreasing its number of rental contracts, selling properties when appropriate and enhancing energy efficiency. This has allowed the city to reduce costs related to its properties and should allow for further cost reductions. Furthermore, the city expects to further reduce costs in the medium term by realising synergies with the intermunicipal grouping (e.g. in terms of resource sharing) and reaping the benefits of digitalisation. However, notwithstanding the transfer of certain functions to the intermunicipal grouping, we believe large reductions in major expenditure items such as personnel costs are unlikely because major gains in these areas have already been made.

Improving but constrained revenue flexibility

French municipalities typically benefit from high revenue flexibility in an international context. Sources of revenue include: i) tax revenue which accounts for most of the operating revenue; ii) intergovernmental transfers which originate mostly from the state; and iii) non-tax revenue including fees. French cities have full discretion on local tax rates, which accounted on average for more than 56% of total operating revenue in 2017, resulting in a high degree of revenue flexibility in an international context. Quimper's revenue flexibility has improved over the past decade, driven by its adaptation to decreasing intergovernmental transfers. Tax income as a percentage of operating revenue has steadily increased from 43.9% in 2011% to 56.9% in 2018 while dependency on state transfers has declined over the same period. Nevertheless, the high revenue flexibility implied by Quimper's revenue structure is mitigated by two factors in our view. First, the city's commitment to keeping tax rates unchanged has been renewed for 2018 and 2019. Second, the local tax rates that are currently applied by the city are above the national average. Both of these factors combined could make any future tax hikes politically difficult, which limits the city's ability to increase revenues significantly.

Conservative budgetary projections for 2019 budget

Based on the 2019 budget, operating expenditure is expected to decline further by 7.1 pps, mostly driven by a decrease in personnel costs due to a transfer of competences to Quimper Bretagne Occidentale. The 2019 budget projects an operating surplus of 17.1% of operating revenue, a slight deterioration compared to 2018. However, we note that the city has adopted a conservative approach to budgeting in the past as it tends to underestimate revenues while overestimating expenditures[8]. In our view, Quimper will continue to generate strong operating surpluses given the benign economic environment and our expectation that state transfers will stabilise.

[8] In 2018, operating expenses were 4% lower than those presented in the budget while operating revenues were 5% higher

Economy and social profile

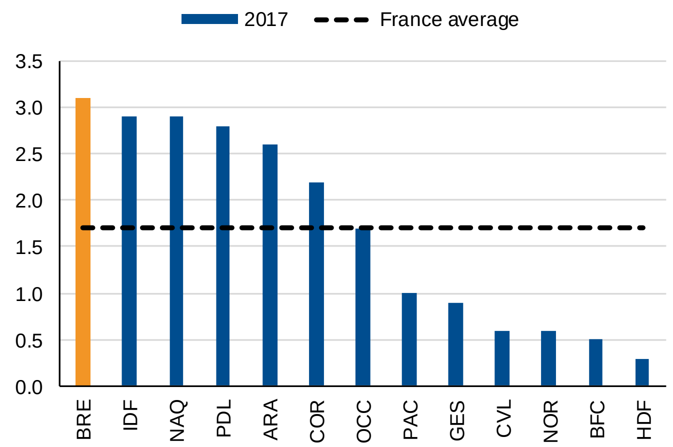
Narrow economic base is a credit constraint

With a total population of 66959 in 2018, the city's credit rating remains constrained by a narrow economic base which heightens its sensitivity to budgetary shocks. The city's population has stayed relatively stable over the past five years period, increasing by only 0.2 pps – a rise driven entirely by migration while the natural rate of population growth approached zero. 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. This could weigh on the city's economic prospects in the medium-to-long run.

A diversified and dynamic local economy

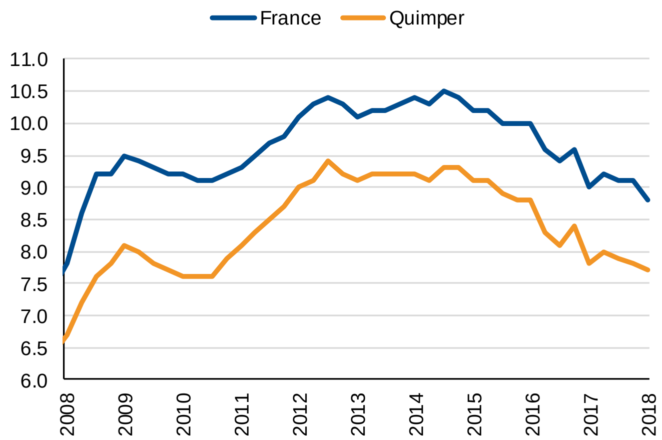
Quimper is a key city in Brittany, benefitting from a well-developed transport infrastructure including an airport (the fifth largest in Brittany) and a commercial harbour (the sixth largest). The city has a relatively diversified economic structure with activities in the service sector (40% of companies located in Quimper Bretagne Occidentale), retail and trade (28%) agriculture, industry, the construction sector and the craft industry (the remaining 32%). In addition, the city has consistently performed better than the national average in terms of unemployment (**Figure 10**). Unemployment has been decreasing since the 2015 peak of 9.3%, reaching 7.7% at year-end 2018 (versus 8.8% for France).

Figure 9. Regional real GDP growth
%



Source: Eurostat

Figure 10. Unemployment rate
%



Source: INSEE

Efforts to revitalise the city centre…

Similar to many medium-sized municipalities in France, the city's commercial vacancy rate stood at 14.4% (versus a 11.9% national average), reflecting population drains in recent years. The city has adopted several credit-positive policies to increase its attractiveness, including: i) improving mobility and public transport access to the city centre, ii) developing housing infrastructure and providing favourable tax incentives for new businesses. In February 2019, the city's efforts to revitalise its city centre led Procos, a French association of retail trade companies, to rank Quimper second among 74 medium- to large-sized French cities in terms of recent improvements in the city's commercial dynamism[9].

…supported by central government initiatives

In 2018, the city was among 222 French municipalities selected to take part in the French Ministry for Territorial Cohesion's *Coeur de Ville* initiative which aims to promote the development of city centres for medium-sized municipalities. As a result, the city will receive EUR 5m financed by the state through government entities such as the *Caisse des Depots* to rehabilitate local housing, develop economic and commercial activities, and improve accessibility as well as the provision of public services. We expect this

[9] Procos, Palmares Procos 2019 des centres-villes commercants, February 2019

initiative to also support private investments in local real estate, with EUR 11.4m in private sector funds expected to flow into the city over the next five years.

Local administration and politics

Stable political environment

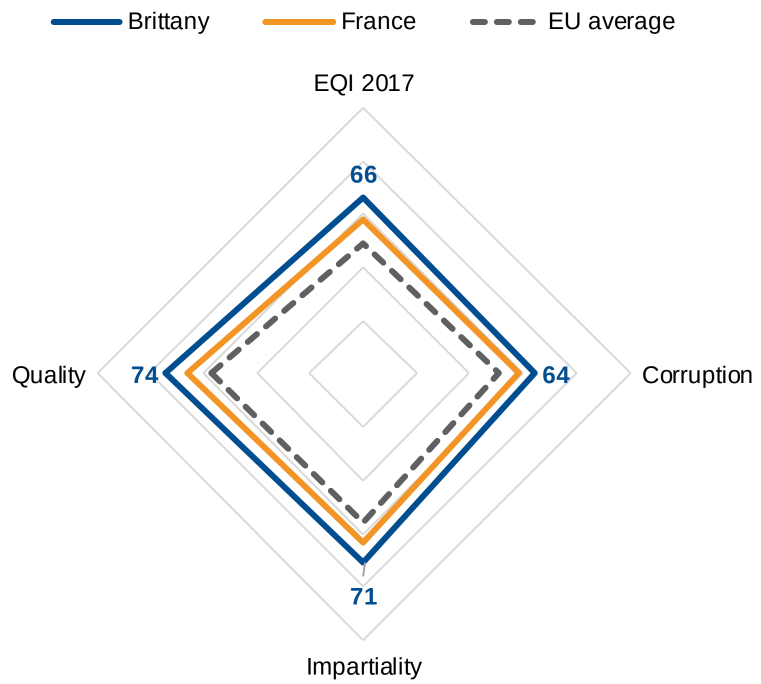
We view the political environment and administration of the city of Quimper as stable. Ludovic Jolivet was elected as mayor by the city council in April 2014 and has been the president of the intermunicipal grouping *Quimper Bretagne Occidentale* since 2017. Mr Jolivet benefits from a majority in the council with the support of 38 out of 49 city councillors. In May 2019, Mr Jolivet announced his departure from his party, *Les Republicains*, to join the pro-Macron centre-right party *Agir* following the European elections in which *Les Republicains* fared poorly. We expect that the switch in party affiliation should not impact Mr Jolivet's relationship with the city council centrist parties, thereby underpinning our view that policy continuity is to be expected.

Strong governance and accountability

Quimper, in line with other French local governments, has high levels of transparency and accountability. City council meetings take place between 8 and 10 times per year and are open to the public and the deliberations dating back to 1996 are available on the city's website. Oversight on the city's budgets is mainly undertaken by the regional Prefect and the *Chambre Régionale des Comptes* whose reports are publicly available while assessments of the city's policies (such as its urban planning programme) are commissioned occasionally.

Quimper also benefits from strong regional governance indicators. This view is underpinned by Bretagne'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. Bretagne is the French region which scores the highest on all dimensions of the European Quality of Government Index (**Figure 11**).

Figure 11. Quality of government scores for Brittany, France and EU average



Source: European Commission, The Quality of Government Institute, Scope Ratings GmbH

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 20.5 m tons of greenhouse gas (GHS) per year, representing around 4.4% of France's total emissions. The region targets GHG emissions reductions 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. The City of Quimper has made investments in this context to improve the energy efficiency of public buildings and achieve higher standards of sustainability.

With regards to social policies, the city benefits from the extensive presence of social and cultural associations which support social cohesion. The city has its own social welfare centre, in charge of social initiatives aimed at supporting the elderly and disabled as well as, promoting social and occupational integration.

We do not foresee any particular credit-relevant risks related to environmental and social developments for the City of Quimper.

Methodology

The methodology applicable for this rating and/or rating outlook, 'Sub-Sovereign Credit Rating', published on 7 June 2019, 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

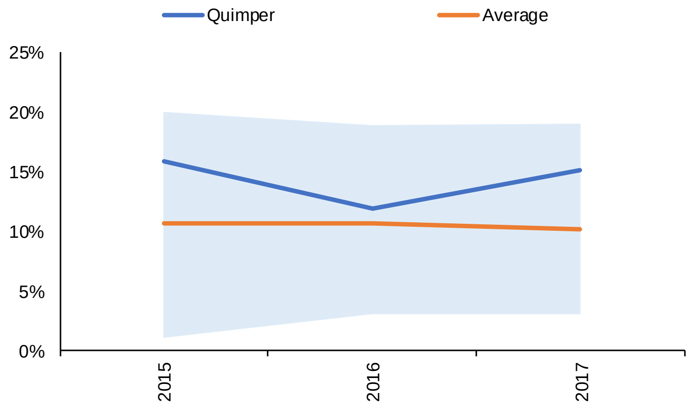
Individual credit profile: City of Quimper

Category	Weight	QS	Risk	Score	CVS	Score	Weight	Total (CVS + QS)
Debt burden and liquidity profile	*40%*	Debt profile	Low	100	Interest, % operating revenue	50	*50%*	**66**
		Contingent liabilities	Low	100	Debt, % operating revenue	38	*25%*	
		Funding and liquidity management	Medium	50	Balance before debt, % operating revenue	55	*25%*	
		Debt QS score	**Σ**	**83**	***Debt CVS score***	**Σ**	**48**	
Budget performance and flexibility	*30%*				Operating balance, % operating revenue	98	*40%*	**71**
		Budget management	Low	100	SD operating balance	33	*15%*	
		Expenditure flexibility	Medium	50	Personnel expenditure, % operating expense	75	*15%*	
		Revenue flexibility	Medium	50	Capex, % total expense	87	*15%*	
					Transfers, % operating revenue	48	*15%*	
		Budget QS score	**Σ**	**67**	***Budget CVS score***	**Σ**	**76**	
Economy and social profile	*20%*				GDP per capita	100	*40%*	**53**
		Growth and diversification	High	1	Unemployment rate	97	*20%*	
		Labour market & demographics	Medium	50	GDP volatility	100	*20%*	
					Old-age dependency ratio	1	*20%*	
		Economy QS score	**Σ**	**26**	***Economy CVS score***	**Σ**	**80**	
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		Medium			Weak	
			≥ 75	≥ 65	≥ 55	≥ 45	≥ 35	≥ 25	< 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

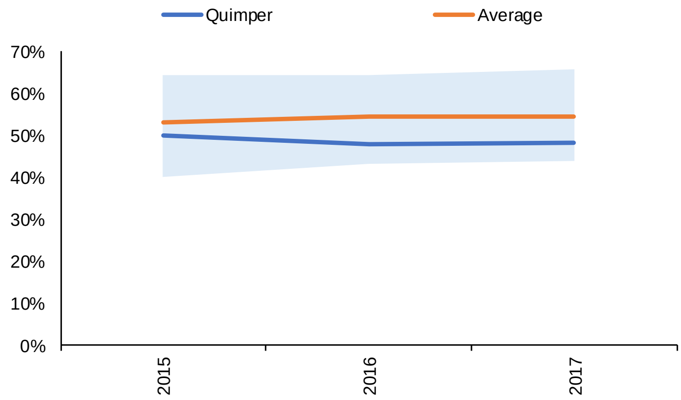
II. Appendix: Peer comparison

Figure 13: Operating balance/operating revenue, %



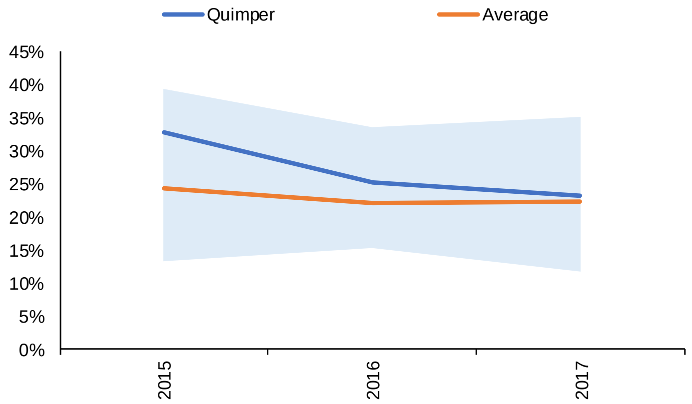
Source: DGFiP, Scope Ratings GmbH

Figure 14: Personnel expenditure/operating revenue, %



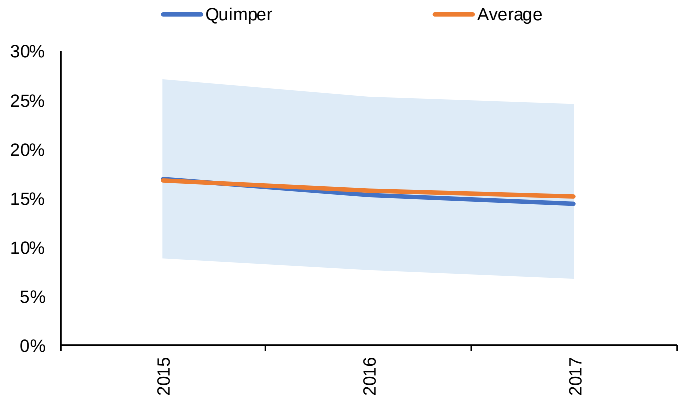
Source: DGFiP, Scope Ratings GmbH

Figure 15: Capital expenditure/total expenditure, %



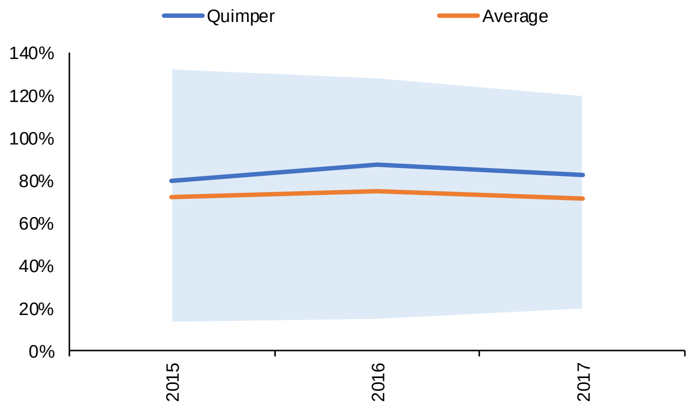
Source: DGFiP, Scope Ratings GmbH

Figure 16: Outgoing transfers/operating expenditure, %



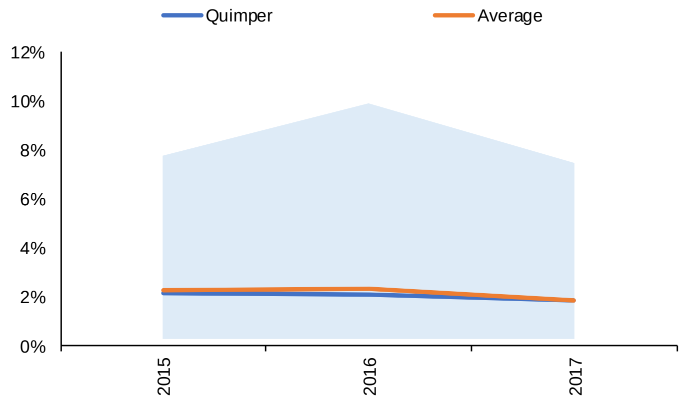
Source: DGFiP, Scope Ratings GmbH

Figure 17: Debt/operating revenue, %



Source: DGFiP, Scope Ratings GmbH

Figure 18: Interest payments/operating revenue, %



Source: DGFiP, Scope Ratings GmbH

III. Appendix: Statistical tables

	2011	2012	2013	2014	2015	2016	2017	2018
Financial performance	Numbers are in thousand EUR (unless noted otherwise)							
Operating revenue	73,877	73,659	74,446	74,000	74,485	71,847	72,399	73,602
Operating revenue growth, %	-	*-0.3%*	*1.1%*	*-0.6%*	*0.7%*	*-3.5%*	*0.8%*	*1.7%*
Tax revenue	42,722	44,079	46,165	47,364	48,487	47,627	47,106	48,202
Allocations and grants	20,461	20,080	20,072	19,494	18,689	15,535	16,728	16,979
Other operating revenue	10,694	9,500	8,208	7,142	7,310	8,685	8,565	8,421
Operating expenditure	56,711	58,133	59,921	61,333	60,889	59,278	59,187	58,536
Operating expenditure growth, %	-	*2.5%*	*3.1%*	*2.4%*	*-0.7%*	*-2.6%*	*-0.2%*	*-1.1%*
Personnel	29,137	28,044	29,673	30,663	30,791	30,504	29,953	29,293
General expenses	13,292	14,519	14,759	15,183	13,974	14,158	15,739	15,422
Allocations and grants	13,621	13,750	14,001	14,204	13,810	13,908	13,082	12,997
Other operating expenditure	661	1,819	1,488	1,284	2,315	707	413	825
Operating balance	17,165	15,527	14,525	12,667	13,596	12,570	13,213	15,066
Interest paid	1,079	1,140	1,463	1,544	1,536	1,475	1,339	1,245
Current balance	16,087	14,387	13,062	11,123	12,060	11,095	11,874	13,821
Capital revenue	6,545	6,974	6,590	6,555	7,147	6,534	13,249	14,051
Capital expenditure	20,477	25,310	22,887	26,966	25,385	18,646	17,619	16,625
Capital balance	-13,932	-18,337	-16,298	-20,411	-18,238	-12,112	-4,371	-2,573
Balance before debt movement	2,155	-3,949	-3,236	-9,288	-6,178	-1,018	7,503	11,247
New borrowing (credit market)	3,000	11,502	11,500	10,000	15,000	10,000	3,003	2,006
Debt redemption (credit market)	4,939	4,623	4,538	6,822	4,642	5,585	5,835	5,732
Overall result	216	2,930	3,726	-6,110	4,180	3,397	4,672	7,521
Financial ratios								
Balance before debt movement/Total revenue, %	2.7%	-4.9%	-4.0%	-11.5%	-7.6%	-1.3%	8.8%	12.8%
Operating balance /Operating revenues	23.2%	21.1%	19.5%	17.1%	18.3%	17.5%	18.2%	20.5%
Interest paid/Operating revenue,%	1.5%	1.5%	2.0%	2.1%	2.1%	2.1%	1.8%	1.7%
Current balance/operating revenue, %	21.8%	19.5%	17.5%	15.0%	16.2%	15.4%	16.4%	18.8%
Capital expenditures / Total expenditures	26.5%	30.3%	27.6%	30.5%	29.4%	23.9%	22.9%	22.1%
Personnel costs/Operating expenditure	51.4%	48.2%	49.5%	50.0%	50.6%	51.5%	50.6%	50.0%
Transfers/Operating revenue	27.7%	27.3%	27.0%	26.3%	25.1%	21.6%	23.1%	23.1%
Current balance as a % of Capex	78.6%	56.8%	57.1%	41.2%	47.5%	59.5%	67.4%	83.1%
Debt to non-public sector (Federal Statistical Office)								
Direct debt	36,448	37,185	44,146	47,324	57,682	62,097	59,262	55,530
Direct debt growth, %	-	2.0%	18.7%	7.2%	21.9%	7.7%	-4.6%	-6.3%
Debt ratios								
Direct debt/total revenue, %	45.3%	46.1%	54.5%	58.7%	70.7%	79.2%	69.2%	63.4%
Debt /operating revenues	49.3%	50.5%	59.3%	64.0%	77.4%	86.4%	81.9%	75.4%
Net interest payments/direct debt,%	3.0%	3.1%	3.3%	3.3%	2.7%	2.4%	2.3%	2.2%
Debt service/operating balance	35.1%	37.1%	41.3%	66.1%	45.4%	56.2%	54.3%	46.3%
Payback ratio (direct debt/current balance)	2.27	2.58	3.38	4.25	4.78	5.60	4.99	4.02
Socio economic indicators								
Population	67274	66911	67131	66826	66900	66900	66979	66959

Source: City of Quimper, Scope Ratings GmbH

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