

## Budgeting in France

By

Delphine Moretti and Dirk Kraan

*During the last two decades, France introduced a series of far-reaching reforms intended to bring about greater transparency towards Parliament, autonomy and flexibility to public managers, and rigor in to fiscal policy making.*

*The report highlights remarkable features of these reforms, such as the comprehensiveness of financial and performance information available to Parliament and the general public, the medium-term dimension of the budget process and well-established transition to top-down budgeting, as well as the autonomy granted to public managers on spending decisions. It finds that the current budget framework commends confidence among the broad range of budgetary stakeholders.*

*In terms of priority areas for reform, the report outlines that France should explore ways to address the fragmentation of its budget framework. It also notes that France's transition towards a full top-down budgeting approach could be strengthened in coming years by defining more detailed parameters for preparing subsequent budgets as part of its medium-term planning. Last, it highlights that, building on existing practices, the framework for fiscal risks management could be strengthened.*

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The report was prepared based on interviews conducted by Ms. Delphine Moretti, Senior Policy Analyst, Budgeting and Public Expenditure Division, OECD, with Mr. Jean-Christophe Gray, Director, Public Services in the United Kingdom's HM Treasury; Dirk Kraan, international consultant on public financial management; and Jérôme Mercier, Director, Expenditure Management Sector at the Treasury Board Secretariat of Canada. It was written by Ms. Delphine Moretti and Mr. Dirk Kraan, under the supervision of Jón Blöndal, Head, Budgeting and Public Expenditure Division. Lisa von Trapp, Senior Policy Analyst, Budgeting and Public Expenditure Division, contributed extensively to Section 7 on Parliament's Role in Budgeting and External Oversight.

## Foreword

OECD budget reviews are produced under the auspices of the OECD Working Party of Senior Budget Officials and at the request of the country under consideration. Budget reviews cover all phases of the budget process and may emphasise specific aspects of the budget process in view of the country's own reform agenda.

In France, the Government formed in 2017, supported by a robust parliamentary majority, has been creating a window of opportunity for far-reaching reforms of the public sector. One important initiative of the new Government in this context is the creation of the Public Policy Programme 2022 (*Programme Action Publique 2022*), which should contain the Government's reform agenda for improving public management and policies.

Against this background, the Ministry of Finance (*Ministère des comptes et de l'action publique*) asked the OECD to conduct a review of its budgeting framework to present and assess reforms and innovations introduced over the last decades and identify how to move the current reform agenda forward.

In carrying out this task, the OECD benefited from extensive consultations and interviews with officials from the Ministry of Finance, line ministries, the Court of Accounts, the Parliament, as well as academic and independent experts. The authors would like to express their gratitude for their availability and insights.

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The preliminary version of this report was presented at the June 2018 annual meeting of OECD Senior Budget Officials, during which a peer review of its findings was conducted by delegates of Sweden and the Netherlands.

## Executive Summary

During the last two decades, France introduced a series of far-reaching reforms intended to improve transparency, give greater autonomy and flexibility to public managers, and introduce more rigour in fiscal policy making. Although several dimensions of the budget framework are currently under review and could be strengthened, the experience of the last 20 years clearly shows the benefits of these reforms, which enjoy broad support amongst institutional stakeholders.

The quality of the State budget documentation is already quite high. An extensive set of financial and performance information is published throughout the year, in the Pre-budget Report, State Budget Act, Budget Execution Act and accrual financial statements. In addition, in pursuing transparency objectives, the Ministry of Finance strives to improve the utility and user-friendliness of budget documents by regularly consulting a broad range of stakeholders, including citizens and parliamentarians.

Another important feature of the French budget system is its medium-term dimension. Laws on the Programming of Public Finances, introduced only a few years ago, have already profoundly transformed the budget process by setting medium-term fiscal targets

for each level of government, anchored to government commitments formulated in Stability Programmes, the main instrument of EU surveillance of national budgetary policy.

The principal means for meeting medium-term fiscal targets in France are expenditure rules laid out in Laws on the Programming of Public Finances. These expenditure rules initially focused on discretionary expenditure of the State, but their scope has been steadily expanded to discourage opportunistic changes in the distribution of spending. A cap on healthcare spending is also set annually, for which the monitoring mechanism was recently reinforced.

The move to top-down budgeting, a necessary complement to medium-term planning, is also well established. The formulation of the annual budget, a bilateral process between line ministries and the Ministry of Finance's Directorate of the Budget (with arbitrations of the Prime Minister's Office) is strongly influenced by the ceilings set in the State triennial budget and expenditure rules stipulated in the Laws on the Programming of Public Finances.

The reforms of the last decades considerably increased public managers' autonomy and flexibility. Parliament authorises spending envelopes at a fairly aggregate level – i.e., for around 130 public policies (*programmes*). Within these spending envelopes, public managers have a large degree of discretion in using their resources, subject to a ceiling on wages.

The autonomy granted to public managers is backed by tight controls on compliance with spending limits, exercised by the Ministry of Finance. Spending limits are enforced both for commitments and payments: all commitments with third parties must be recorded in an IT system operated by the Ministry of Finance and are capped, per programme, in the annual budget. Reliable, up-to-date information on commitments and payments incurred on each programme is therefore available at any point in time, allowing the sustainability of line ministries' spending to be assessed against fiscal targets and expenditure rules.

During budget execution, spending cannot be increased without the approval of Parliament, but reallocations are authorised to address budgetary pressures and emergencies while ensuring compliance with expenditure rules. As the Directorate of the Budget recently required line ministries to prepare more conservative budgets, the recourse to such reallocations is expected to decrease in the future.

High-quality cash management allows for orderly budget execution. Cash balances of line ministries, public agencies and local government are fully centralised, with profiling of upcoming disbursements provided on a daily basis by the very large network of public accountants, who also control and process all payment orders.

The State and public agencies maintain accounts on commitment, cash and accrual bases, while Social Security prepares only accrual accounts. The State's year-end reporting is particularly comprehensive: first, performance reports are prepared for each government programme showing actual spending and performance results against the budget and initial objectives; second, accrual financial statements show all assets, liabilities and contingent liabilities of the State.

Both financial and performance information is audited by the Court of Accounts, the independent supreme audit institution, which also publishes regular reports on the state of public finances throughout the budget cycle to inform Parliament and the general public. Independent oversight of the budget process was further strengthened in recent years with

the creation of an independent fiscal institution, which noticeably improved the reliability of macroeconomic forecasts.

Parliament retains a strong role in the State Budget Act's approval process. Discussions remain, however, limited at other important stages of the budget process, such as the presentation of the Pre-budget Report and Budget Execution Act. Consequently, Parliament is considering options to rebalance its involvement in the process.

In spite of the strengths described above, challenges remain. Compared to peer countries, France's budgetary framework is highly fragmented, which creates difficulties for measuring the total cost of policies implemented at different levels of government and also limits decision makers' capacity to allocate resources based on political priorities. As a priority area for reform, France should therefore explore ways to reduce the fragmentation of its budgetary framework.

France's medium-term budgeting practices could also be strengthened, against the background of the new government's ambitious fiscal consolidation plans. Fiscal targets should be translated into precise expenditure prioritisation decisions. This could be achieved through a phase of governmental deliberation prior to the formulation of the Law on the Programming of Public Finances and, possibly, through regular spending reviews. This would allow line ministries to, in turn, establish reliable and detailed multi-year spending plans.

As in many other OECD countries, unforeseen events have made it particularly difficult, in recent years, to deliver medium-term fiscal targets. International experience shows that a "fiscal margin" could efficiently act as a buffer to absorb emergencies or new priorities that inevitably arise after medium-term plans have been laid out.

Finally, although a wide range of budgetary risks are identified and monitored by a variety of actors, reporting and analysis of these risks are scattered and feature only to a very limited extent in the policy-making process. Building on existing practices, the Ministry of Finance could therefore consider options for publishing a summary report of such risks that could inform consideration and debate about challenges for meeting fiscal targets.

**Table 1. France and the OECD Recommendations on Budgetary Governance**

The OECD Recommendation of the Council on Budgetary Governance (2015) sets out ten principles of effective and modern budgeting. The table below provides a concise summary assessment of France's budget system by reference to all budget principles covered in the report.

| Budget Principle  | France  | Reference |
|---|---|-----------|
| 1. Clear fiscal limits  | Targets for total spending of each level of general government are set for a three to five-year period in the Law on the Programming of Public Finances. These targets are "operationalised" into a set of expenditure rules that are generally complied with, but their limited coverage creates incentives for opportunistic changes in the distribution of spending and makes possible deviations from targets for total spending. | Section 4 |
| 2. Medium-term strategic alignment                            | The Law on the Programming of Public Finances embodies the medium-term dimension in the budgeting process and is recognised by all stakeholders as the anchor for the formulation of the State and Social Security annual budgets. Operational parameters for preparing subsequent budgets could however be better specified.   | Section 4 |
| 4. Open, transparent and accessible budget documents and data | Comprehensive and reliable budget/financial information is accessible on Government websites, with a number of publications presented in a citizen-friendly way. The Ministry of Finance almost constantly seeks inputs from stakeholders to improve the legibility of budget/financial documents and data. Selected open, useful and reusable data is routinely made available.  | Section 6 |

| Budget Principle  | France   | Reference       |
|---|--|-----------------|
| 6. Comprehensive, accurate and reliable accounting                | Commitment, cash and accrual accounts are maintained and published on an annual basis by the State and public agencies. Social security publishes accrual accounts annually. Budgets and accounts are comprehensive and reliable but very fragmented.  | Section 3 and 6 |
| 7. Active planning, management and monitoring of budget execution | Cash management is exemplary, with profiling, control and realisation of cash disbursement done centrally by the Ministry of Finance through a treasury single account. While tight controls are exercised to insure that line ministries comply with spending authorisations, great autonomy is granted to them on spending decisions and flexibility measures allow for addressing emergencies, under strictly codified criteria. Earmarking of revenue, which is largely used, however creates significant budget rigidities. | Section 3 and 5 |
| 8. Performance, evaluation and value-for-money                    | Performance information is exemplary, as both summary and detailed information on performance indicators and results for each Government programme is published each year for accountability purpose. However, as in many OECD countries, performance evaluation does not yet inform budgetary decision making and introducing spending reviews exercises could help in better prioritising spending and preparing medium-term plans.  | Section 6       |
| 9. Fiscal risks and long-term sustainability                      | Several fiscal risks are monitored by the Ministry of Finance and other stakeholders, but they are not systematically measured and disclosed. Fiscal sustainability is assessed only as part of European Union Aging Report exercise. This is an area where the Ministry of Finance, in which progress is clearly possible and needed.   | Section 5       |
| 10. Quality, integrity and independent audit                      | External oversight is strong. The High Council for Public Finances underpins the quality of macro-economic forecasts. The Court of Accounts is a very strong supreme audit institution and realises audits to high international standards, including systematic review of performance indicators and results.   | Section 7       |
| Other key issues  | Parliament has a strong role in the budget process, which is however very focused on the annual budget formulation stage. Analytical capacities at the disposal of parliament are good, but could be increased in key areas such as fiscal policy and performance evaluation.  | Section 7       |

## 1. A changing economic and fiscal environment

### 1.1. Political and institutional landscape

#### 1.1.1. The “semi-presidential system”

The Constitution of the Fifth French Republic (“the Constitution”) adopted by referendum on 28 September 1958 and amended several times since then, is the cornerstone of the political system in France.<sup>1</sup> Under the Constitution’s provisions, France combines the characteristics of a Parliamentary democracy with a strong executive power and is often defined as a “semi-presidential system”.

The Head of State is the President of the Republic, elected for five years by direct universal suffrage. The Constitution gives the President important duties and responsibilities in the fields of foreign and defence policies. Constitutionally, the executive power lies with the Council of Ministers, which is chaired by the President. The Government is headed by the Prime Minister, who is appointed and can be dismissed by the President. Similarly, ministers are appointed and dismissed by the President, but on the Prime Minister’s proposal.

Legislative power lies with a bicameral Parliament comprising a Lower House (National Assembly) and an Upper House (Senate). Governments are primarily accountable to Parliament, as stated in Article 20 of the Constitution, but also answer to the President. However, in times that the Presidential and Parliamentary majorities do not coincide, the balance of executive power shifts to Parliament and the Prime Minister (a situation which has not been experienced in recent years due to the 2000 amendment to the Constitution).

### *1.1.2. The complex institutional landscape*

Not many countries experience such a dense, diverse and idiosyncratic institutional landscape as France. Public entities, in France, fall under many legal statuses and under a range of different budgetary regimes, discussed in detail later in this report.

Firstly, the State (“*l’État*”) is a public body endowed with legal personality and composed of administrative structures that operate at central and decentralised levels. Around 10 autonomous central administrations have separate legal personality and administrative structure, such as the Parliament and Court of accounts.

Around 1 300 State public agencies (“*établissements publics*”) operate under several statuses existing in French law (e.g. public administrative establishments, public establishments with scientific, cultural or professional character, public industrial and commercial establishments, groupings of public interest, associations and a few others). Their executive policy is not subject to direct ministerial responsibility, as they have their own board or chief executive officer. Their funding sources (transfers or own revenue), size (from five to several thousand employees) and functions (policy making or delivery) greatly vary.

Fifteen administrations are part of the French social security (“*sécurité sociale*”). They manage four regimes providing pensions, health entitlements, family benefits and insurance for workplace accident assistance.

Lastly, an exceptionally high number of entities - more than 30 000 - operate at the local level, under several legal statuses (e.g. regional Governments, departments; municipalities as well as groupings of local Governments with a juridical personality).

## **1.2. Macro-economy**

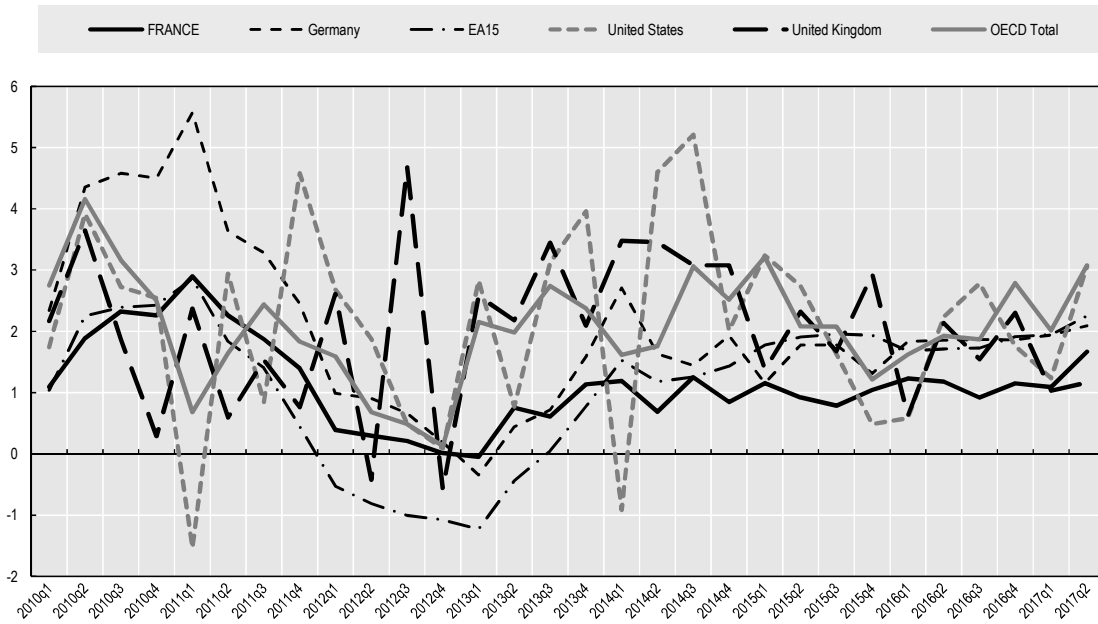
Growth in France has been driven over the last decades by many strong sectors such as machinery and chemicals, metallurgy, automobiles, aircraft, electronics, textiles, food processing, tourism and energy production, as well as sectors in which France is a world leader, such as nuclear energy, defence, fashion, wine, cheese and perfume.

Despite these strengths, the French economy recently underperformed relative to Germany and other OECD countries (see Figure 1). Several factors explain that situation, among which limited external competitiveness is generally considered a major one. However, since 2017, economic growth has rebounded, in the context of favourable macro-economic environment in the euro area and supported by fiscal alleviation in the areas of corporate taxation and social security contributions. In 2018-19, growth is expected to remain robust at an annual pace of around 2 % thanks to stronger external demand, a rebound in tourism, robust business confidence and job creation (OECD 2017).

Another recurrent problem is rigidities in the labour market, which is believed to have led to the high level of unemployment in the workforce. At 8.9%, unemployment in France is considerably higher than the OECD average (see Figure 2). In addition, sharp inequalities in educational outcomes have hindered social mobility and prevent more inclusive labour outcomes. However, lower social contributions, hiring subsidies and blocked-up training programmes for the unemployed, have generated a downward trend in the unemployment rate since 2015, which is expected to strengthen in 2018 due to labour market reforms (OECD 2017).

**Figure 1. OECD countries: Real GDP growth rate**

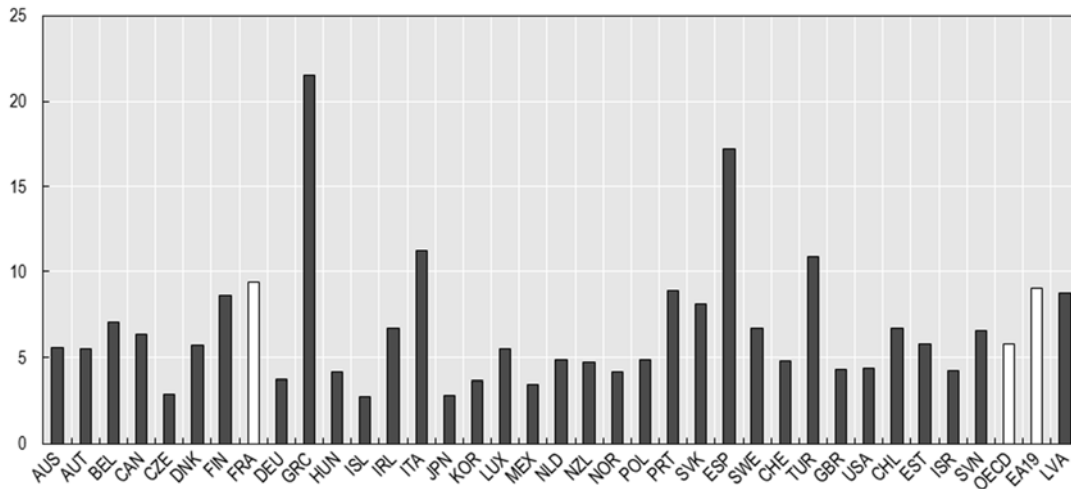
% , year on year changes, 2010-2017



Source: OECD 2017.

**Figure 2. OECD countries: Unemployment rate**

%, 2017



Source: OECD (2017).

### 1.3. State of public finances

#### 1.3.1. General government spending

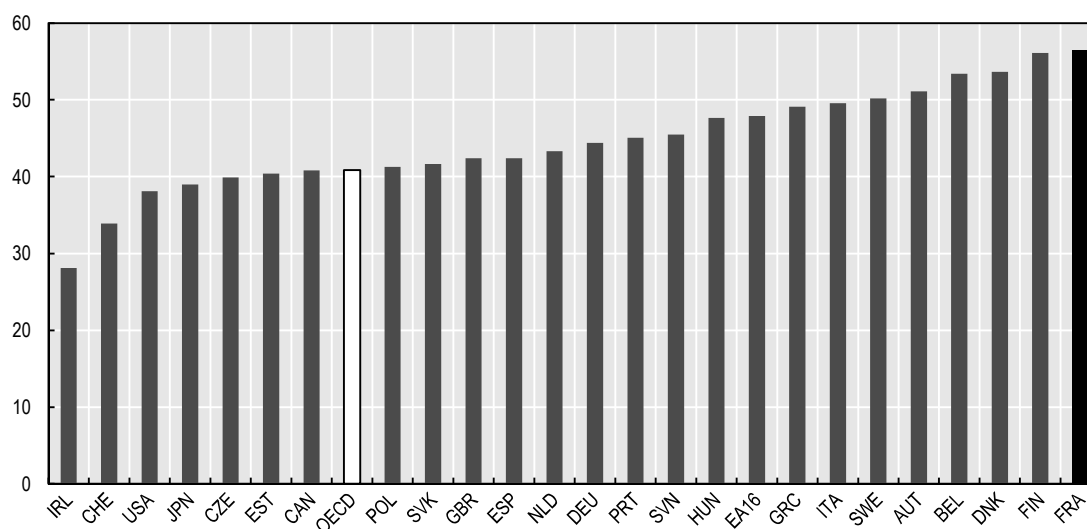
In the national accounts, public entities are classified under the three sectors of the general government sector (“*administrations publiques*”, or APU) as defined in the UN System of National Accounts 2008 and the European System of Accounts 2010:

- The State, independent administrative bodies, and public agencies (“*Organismes divers d’administrations centrale*”, or ODAC) comprise the Central Government (“*administrations publiques centrales*”, or APUC);
- The social security (see Box 1) and a number of large State public agencies that manages and delivers unemployment benefits and pensions for selected beneficiaries, as well as several smaller State public agencies providing health and social care, compose the Social Security Sector (“*administrations de sécurité sociale*”, or ASSO); and
- All public institutions operating at the local level that are not attached to the central Government comprise the Local Government Sector (“*administrations publiques locales*”, or APUL).<sup>2</sup>

General government spending has been growing steadily in France since the 1960s, in all three sectors, and reached 56.4% of GDP in 2016 (Figure 3), the highest of all OECD countries. Social security is the sector where spending increased the most over the last decade, rising to 26% of GDP in 2016, and generated the bulk of general government spending in recent years (Figure 4).

**Figure 3. OECD countries: General Government Expenditure**

% of GDP, 2016



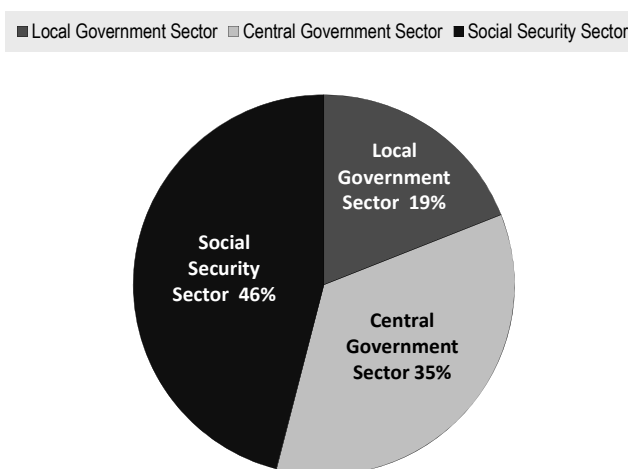
Note: Or latest year available

Source: OECD (2017)



**Figure 4. France: General Government Expenditures**

Shares of sub-sectors in %ages of general government expenditures.



Source: Directorate of the Budget Activity Report (2017).

The substantial difference between general government expenditure in France and the euro area average can be specified in terms of selected items of the international COFOG classification, which registers public expenditures in terms of their function (Table 2). Differences are concerned in particular with a large variety of social benefits, such as old age pensions, housing subsidies, health care, unemployment benefits and tax credits for low income earners (under economic affairs). France also spends more than its peer countries on defence.

**Table 2. France: Repartition of General Government Expenditure**

Composition of the difference in the rates of General Government expenditure to GDP between France and the euro area average in terms of the COFOG classification (% of GDP, 2016)

|                                   |      |
|-----------------------------------|------|
| Eurozone average (without France) | 46.3 |
| Old age pensions                  | 3.4  |
| Economic Affairs                  | 1.6  |
| Housing                           | 1.3  |
| Health care                       | 1.1  |
| Family and children               | 0.9  |
| Education                         | 0.9  |
| Defence                           | 0.7  |
| Unemployment                      | 0.3  |
| Other                             | 0.1  |
| France                            | 56.6 |

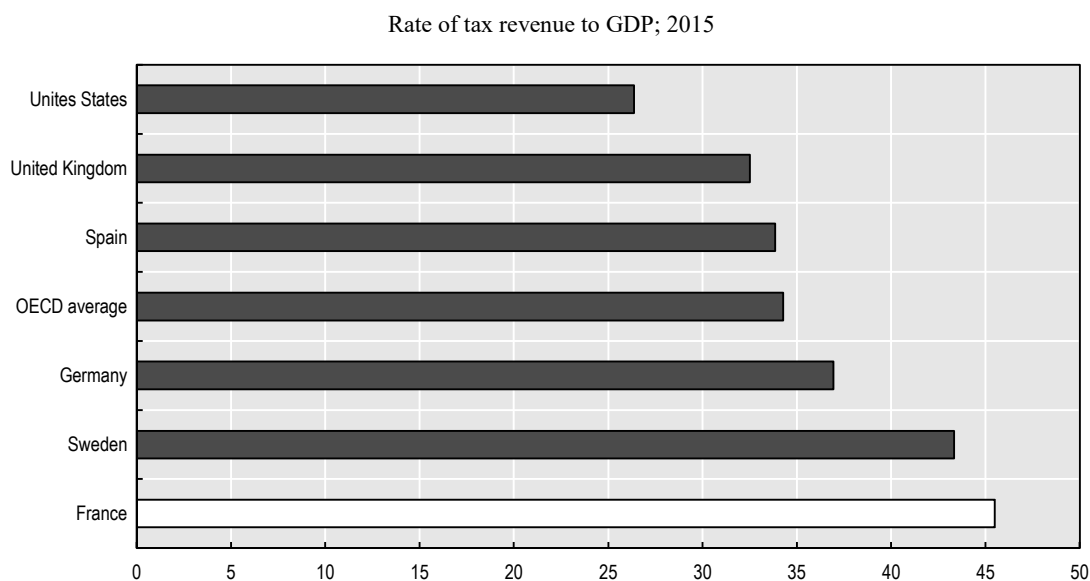
Source: Directorate of the Budget Activity Report (2017).

### 1.3.2. Tax Revenue

In line with public expenditure level, France has the highest rate of tax revenue to GDP in the OECD (45.4% of GDP in 2017, see Figure 5). The tax system in France is complex, with a large number of frequently changing exemptions and credits. Tax incidence also

significantly deviates from the OECD average with relatively low shares of taxes on good and services, such as value added tax, and on personal income and relatively high shares of taxes on payroll and workforce and social security contributions.

**Figure 5. Selected OECD countries: General Government Revenue**



Source: OECD (2017)

### 1.3.3. Deficit and debt

The French public finances have always been in deficit since the first oil shock (1975), regardless of up-turns or down-turns of the economic cycle. Therefore, France entered the global financial crisis in 2008 with an effective deficit of 3.2% of GDP, which peaked at 7.2% of GDP in 2009. Since 2012, the structural deficit level has gradually been reduced albeit at a slower pace than in other EU countries.<sup>3</sup> In 2017, the nominal deficit was at 2.6% of GDP, hence falling below the under the 3% threshold of the Stability and Growth Pact for the first time since the financial crisis. However, the structural deficit remains high as reduction of the nominal deficit is due to a rise in tax receipts, rather than a reduction of public spending.

As a consequence of persistent public deficits, public debt has more than quadrupled in France from 21.2% of GDP in 1978 to 96.8% in 2017, resulting in the French level of indebtedness being substantially higher than the euro area average. This constitutes a considerable fiscal risk, in view of the low interest level of 2016 (0.75% on 10-year French Government bonds), that could easily move upwards in future years.

The current level of public debt is mostly due to the State, which is also the only sector of general government that generated a deficit in 2017 (social security and local government sectors both generate surpluses). However, analysing levels of debt and deficits by sector is difficult in France, as transfer mechanisms as well as earmarking of revenue discussed in Section 2 in this report have resulted in the State increasing its own deficit and debt levels to finance those of other sectors of government.

### 1.4. The Government's ambitious reform programme

Since its formation in 2017, the Government has made considerable efforts to develop a wide-ranging and far-reaching structural reform programme and expects that the favourable context of the economic upturn will contribute to its aim to attain a transformation of the economic and social model of France. This reform programme is based on four pillars:

1. Stimulation of economic activity through a structural reform of the labour market, a relief of the tax burden and a simplification of market regulation;
2. Investments in both the private and public sectors, aimed at innovation, and leading to improvement of productive capacity and a new model of economic growth;
3. Protection of citizens and sharing of opportunities in order to strengthen social inclusion and to combat territorial fractures and inequalities, through the renovation of the social model and the invention of new protections, adapted to the modern economy.
4. Reform of public finance and public management.

With regards to public finances, it is notable that the newly elected Government decided in 2017 a package of spending cuts in the course of the budget execution of over EUR 5.0 billion, in order to ensure that the general government deficit remained under the 3% threshold of the Stability and Growth Pact.<sup>4</sup> Significant across the board cancellation of appropriations was performed.

The Government simultaneously laid out its fiscal plan in the Law of the Programming of Public Finances 2018-2022 ("*Loi de programmation des finances publiques*", or LPFP), which sets a medium term objective for general government structural balance at -0.4% of potential GDP in 2022. The moderation of public sector salary growth is expected to be an important component of this effort and all administrations have been asked to cut into their operational costs. Savings are expected also in areas where France spends more compared to its peer countries, as discussed above. The Government plans indeed on decreasing housing subsidies and health spending. Finally, to identify additional savings, the Government launched a spending review exercise, the Public Policy Programme 2022 ("*Programme Action Publique 2022*"), covering the whole of the general government.

In parallel with these expenditure measures, a substantial tax relief package has been decided, amounting to EUR 10 billion in 2018, which aims at creating further economic growth, as well as employment and consumer purchasing power; improving the competitiveness of enterprises; and stimulating investment in the corporate sector.

#### Box 1. France: The Social Security

##### A mixed model

In France, social security ("*regimes de sécurité sociale*") was established in the wake of the Second World War as independent public institutions with an administrative structure entirely separate from the State. They have their origins in the social insurance model whereby independent institutions finance various benefits to workers by levying mandatory contributions (also called premiums) on employers and employees, known as the "Bismarckian" system, as opposed to Government-managed benefits, known as the "Beveridge" system. The French Bismarckian model however evolved over time, due to three main factors. Firstly, Social Security Funds were increasingly tasked with delivering universal coverage benefits on behalf of the State, such as the "Universal Health

Coverage”. Secondly, Social Security Funds increasingly relied on Government financing, partly for funding universal coverage benefits, partly for funding the deficit of the premium funded benefits. As employers and employees federations progressively stepped down from policy and management functions, France’s social security is now made up of historically inherited independent institutions controlled by a Government that has gradually reasserted control on its management and spending.

### **Social Security Policy**

Social Security policy is defined in laws and regulations that establish legal right of eligible persons to receive a financial benefit under specified criteria. This implies that, in principle, governments can change the expenditures through the adjustment of laws and regulations, provided Parliamentary consent. However, in practice, as seen in most other OECD countries, formal procedural arrangements for consultation with social partners and executive organisations are still mandatory.

### **Administrative organisation: “regimes”, “branches” and cash offices (“caisses”)**

A regime is characterised by the population covered, the benefits provided and the methods by which they are financed. A regime can be basic or complementary. The most important basic regime is the “general regime” which sets provisions for all employees of the private sector except in agriculture, but there are 39 different basic regimes for specific professional groups. Complementary regimes are equally obligatory but they cover risks that are not covered by the basic regimes, such as a regime for supplementary old age pensions for senior staff officials (“*cadres*”) in the private sector.

Social benefits are provided by the territorially organised cash offices, which are the basic institutional units of social security. They form networks which are co-ordinated by a national cash office (the “branch”), which has the status of a State operator. A network of cash offices handles the social benefits of one or more regimes. The first and second branches make use of the same network of cash offices and are co-ordinated by the same national cash office (CNAM). The third and fourth branches are each co-ordinated by its own national cash office (CNAF and CNAV). The fifth branch consists of 22 unions for the collection of social security mandatory contributions and is co-ordinated by the central agency for the organisms of social security (ACOSS).

*Source:* Authors and OECD (2015).

## **2. Two decades of budgetary reforms**

### **2.1. Legal foundation for budgeting**

France’s budget system has a very strong legal basis, as successive Organic Budget Laws have instituted a number of “foundational” budgetary principles that shape the State budgetary framework. There are four such principles: unity, specification, annuality and universality, which can be summarised as follows:

1. The principle of **unity** means that, for every financial year, all revenue and expenditure of the State, must be entered in a single document: the budget;
2. Under the principle of **specification**, each appropriation must be allocated for a specific purpose, this purpose being defined in the budget nomenclature;

3. The principle of **annuality**, which is designed to make it easier for the Parliament to monitor the Government's activities, requires all budgetary operations to be attached to one financial year; and
4. The principle of **universality** means that the total revenue in the budget must cover the total expenditure. In other words, State revenue constitutes a common fund which is used to finance all expenditure without distinction.

Within these principles, primary and secondary legislations codify budget procedures for all levels of government. Although legislation remained largely unchanged from the 1950s from the late 1990s, since then, successive waves of reforms, driven successively by the Parliament, the Executive and the Ministry of Finance, as well as European Union Treaties, have modernised budgeting procedures, and also introduced new, more modern principles into the budget framework. These reforms can be schematically divided into those that aimed primarily at increasing transparency towards Parliament, and those that aimed primarily at reinforcing fiscal responsibility. The following sections provide an overview of main changes brought by two decades of reforms, with detailed description and analysis of the budgeting procedures provided in subsequent sections.

## 2.2. The “Transparency Reforms”

The “Transparency Reforms” are major legislative reforms that took place in the early 2000s. They aimed at further empowering Parliament in budget discussions and facilitating year end scrutiny, by providing more transparent, detailed and legible information for both the State and social security, as described below.

The first and maybe most important reform of the last two decades in France is the new Constitutional Bylaw on State Budget Acts (“*Loi Organique de Lois de Finances*”, or LOLF), borne out of a bipartisan Parliamentary initiative in 2001 to replace the 1959 Organic Ordinance. It constituted a real “big bang” in terms of fiscal management for the State as, in line with the ideas of *New Public Management*, the LOLF broke with the old tradition of input control to embrace the more modern concept of performance monitoring. The core innovation brought by the LOLF was a very refined system of performance budgeting, combining both programme presentation of the budget and performance-informed allocation of cash and commitments. In practice, this meant that a State budget is to be presented by missions, programmes and actions, to which several objectives and performance indicators were associated.

Although performance budgeting is generally considered the foundational element for greater transparency in the budget process brought by the 2001 reform, the LOLF introduced several other requirements to improve the sincerity, quality and completeness of budget documentation, among which providing a rationale for “each euro” allocated to missions and programmes (or “zero based budgeting”) and preparing accrual accounts at year-end that would disclose the full cost of government operation and its financial position.

The LOLF also granted a large degree of financial autonomy to managers. The full appropriation for operating expenditure (except salaries) could be used on a discretionary basis, towards objectives and performance indicators set in the programme. Managers could enter into multi-annual commitments, within ceilings set in the State Budget Act. In return for this high level of financial autonomy, managers are expected to adhere to strict financial and performance reporting rules.

Finally, the LOLF significantly empowered the Parliament. Before 2005, the Parliament approved nearly 95% of annual appropriations (representing the renewal of past appropriations) in a single vote, and was entitled to review, in detail, and approve on a line by line basis only “new appropriations” - that is appropriations associated with new policies. From 2006, the Parliament started voting the budget allocated to each mission and programme, from the first euro. The LOLF particularly emphasised the Parliament’s role in the oversight and evaluation of budget execution.

Ten years-on after its implementation, the LOLF is considered the hallmark of the French budgetary system and its innovations generally perceived as successes, even though recent stock taking exercises identify areas for improvements (Court of Accounts, 2016). The LOLF can even be said to have “set the tone” for modernising other sectors of government: Since 2006, social security and public agencies have undergone budgetary reforms explicitly inspired by the LOLF, as explained below.

Transparency reforms also took place in the social security sector in the late 1990s. As the French Government was taking on a more active role in social security management and funding (see Box 2), questions about transparency over the Executive’s decision-making process started to emerge. Under the impulse of the then Prime Minister, a Constitutional Bylaw (“*Loi constitutionnelle du 22 février 1996*”) instituted annual Social Security Financing Acts (“*Loi de financement de la sécurité sociale*”), hence clarifying and asserting the Government’s role in determining social security policy and subjecting social security financing to the approval of Parliament.

Although this reform was a major step in terms of transparency and accountability towards Parliament, the subsequent adoption of the LOLF shed light on a number of weaknesses of Social Security Financing Acts. Consequently, a new Constitutional Bylaw (“*Loi Organique de Loi de financement de la sécurité sociale*”, or LOLFSS), modelled after the LOLF, was adopted in 2005 to align as much as what was considered possible to the content of the State’s and Social Security’s annual budgets. In particular, the LOLFSS required the Social Security Financing Act to present “core tables” highlighting whether each of the social security regimes were in balance, deficit or surplus to associate performance indicators (with lesser details than for the State).

Finally, more recently, in 2016, the Decree of the Budgetary and Financial Management of Public Entities (“*Décret relatif à la gestion budgétaire et comptable publique*”, or GBCP) aligned the budgetary framework for public agencies with the LOLF. The Decree required, in particular, that public agencies prepare budgets that set annual commitment and cash authorisations, using nomenclature similar to the State’s and define objectives and performance indicators to allow monitoring of their results. The decree also codified modernisations of budget execution processes previously piloted by the Ministry of Finance, such as risk-based control (“*contrôle hiérarchisé de la dépense*”), shared services (“*centres de service partagés*”) or digitalisation.

### **Box 2. France: Social Security Financing Act after the LOLFSS**

Following the adoption of the LOLFSS, Social Security Financing Acts were aligned the State Budget Acts, subject to remaining specificities. An important difference between State Budget Acts and Social Security Financing Acts is that in the former limits are set for expenditures (“limitative” authorisations), with few exceptions (e.g. debt interests), while in the latter, not only the revenues but also the expenditures, have the character of forecasts or even of objectives (“evaluative authorisations”).

Social Security Financing Acts therefore approve forecasts of expenditures, revenues and balances presented in so-called equilibrium tables presented per branch for the year  $t$  (the budget year) and “equilibrium tables” for the basic regimes of the previous year (the year  $t-2$  in the law for year  $t$ ). They also adjust, if necessary, the same equilibrium tables for the current year (the year  $t-1$  in the law for year  $t$ ).

Social Security Financing Acts also include a cap for health spending of the next year, the National Objective for Healthcare Spending (“Objectif National de Dépenses de l’Assurance Maladie”, or ONDAM).

Finally, Social Security Financing Acts contain numerous other provisions with respect to revenues, expenditures, cash management and the management of organisms in the area of social security. Moreover, they authorise the ACOSS and certain other cash offices to take on loans and limit the ceilings of new loan commitments.

Social Security Financing Acts include a number of important annexes which mirror information provided in the State Budget Act although often with less detail:

- Annex A presents the balance sheet of the organisms covered by the law.
- Annex B contains estimates of revenues and expenditures, ONDAM and balance per branch for four years (the budget year plus three out-years).
- Annex C provides detail about the revenues of the organisms covered by the law per category of revenue (premiums, taxes, transfers from other organisms, etc.) for the budget year.

In addition, an annex presents “quality and efficiency programmes” for each branch. This annex is inspired by the LOLF and prescribes the provision of performance information, including objectives, policy strategies, results and performance indicators. An annex presents “objectives and management agreements” that have been concluded between the State and the most important cash offices in order to establish their objectives (improvement of service quality) and their means (including human resources). An annex provides a list of allowances and exemptions of premiums and own contributions, comparable to the list of tax expenditures that is included in the State budget. An annex explains how the ONDAM is established, which measures have been taken to respect it and how these measures fit into the public health policy of the State. Finally, an annex presents *ex ante* evaluations of measures underlying the estimates of the law.

The Social Security Financing Act covers a broad perimeter but does not fully encompass all social security administrations (as defined in the national accounts). The law only covers the compulsory basic schemes of the Social Security as well as the funds that contribute to its financing. For this reason the unemployment insurance system, as well as the supplementary pension schemes (that are part of the social security administrations in the national accounts), are out of the scope of the LFSS.

*Source:* Authors.

### 2.3. The “Fiscal Responsibility Reforms”

The “Fiscal Responsibility Reforms” are innovations initiated by the Finance Ministry since the late 1990s - expenditure rules, spending reviews and multi-year planning - which aimed at reinforcing the top-down character of the budgeting framework and containing



expenditure growth. Though these reforms had no legislative basis in the first place, most of them have been codified over time into the law.

### 2.3.1. Expenditure rules

Besides the various fiscal rules imposed by EU membership, the Government has sought, since the late 1990s, to develop expenditure rules that could be “anchors” for budget preparation and monitoring of budget execution.<sup>5</sup>

The State Discretionary Expenditure Rule (“*norme de dépense de l’État*”) was developed in 1996, with its scope revised in 2004, 2008, 2012 and 2018. In addition, the Government developed in 1997 the National Objective for Healthcare Spending (“*Objectif national de dépenses d’assurance maladie*”, or ONDAM). For local government, an expenditure rule (so called ODEDEL) started to be presented in 2014, to complement the historical “golden rule” that entities to fund operating expenditures out of their own revenue (and not by borrowing). In total, in 2018, there are four such expenditure rules currently in use for general government (see Table 3).

From being mainly management tools, expenditure rules evolved over time to become the principal means for operationalising medium-term fiscal targets and have been enshrined in legislation. In particular, since 2009, expenditure rules applying to the State and State operators are approved by Parliament as part of the Law on the Programming of Public Finances, with their scope described in an appendix to the law, known as the Budgeting Charter (“*Charte de budgétisation*”).

**Table 3. France: Expenditure Rules for General Government (2018)**

|  | Creation | Current Legal Basis                    |
|--|----------|--|
| <b>State</b>   |          |  |
| State Discretionary Expenditure Rule (« <i>Norme de dépenses pilotables de l’État</i> »)                               | 1996     | Law on the Programming of PF 2018-2022 |
| State Total Expenditure Rule (« <i>Objectif de dépenses totales de l’État, or ODETE</i> »)                             | 2018     | Law on the Programming of PF 2018-2022 |
| <b>Social security</b>   |          |  |
| National Objective for Healthcare Spending (« <i>Objectif National de Dépenses de l’Assurance Maladie</i> », or ONDAM) | 1997     | Annual Social Security Financing Acts  |
| <b>Local Government</b>  |          |  |
| Local Government Expenditure Rule (« <i>l’objectif d’évolution de la dépense locale</i> », or ODEDEL)                  | 2014     | Law on the Programming of PF 2018-2022 |

*Note:* Applicable also to State operators.

*Source:* Authors, based on Directorate of the Budget.

In addition to these expenditure rules, a number of “limitations” have been set over time on specific elements of spending that have been identified as major sources of pressure on public finances. In recent years, these limitations have concerned in particular tax expenditures and the public sector payroll. Although they do not necessarily set ceilings on spending as is the case with a traditional expenditure rule, these limitations establish a framework for incurring certain expenditure that is aimed at monitoring their growth. For example, measures aimed at stabilising the central government payroll include an annual limitation target on total employment by ministry.



### 2.3.2. *Spending reviews*

France has a long history of spending reviews.<sup>6</sup> Despite several such exercises in recent years, results in terms of savings have been generally considered limited. This may be explained by the fact that, contrary to many other OECD countries, spending reviews typically had mandates broader than the identification of savings and never had a close link to the budget formulation process.

Recently, two comprehensive spending reviews have been rolled out by successive Governments. The first one (“*Revue des dépenses publiques*”, or RGPP) took place in 2007-11 and aimed at identifying possible savings and efficiency gains at the central government level. The second one (“*Modernisation de l’Action Publique*”, or MAP) took place in 2013-16 and aimed primarily at simplifying administrative procedures - that is improving the quality of services to users - with savings considered a secondary objective.

In 2014, the Law on the Programming of Public Finances also instituted annual spending reviews to be conducted as part of the budget preparation and whose results were to be presented in an appendix to the Budget Act. These spending reviews were conducted on selected topics from 2014 to 2016, and generated regular but limited savings. However, this practice was abandoned in 2017.

In 2017, the new Government launched a spending review exercise, the Public Policy Programme 2022 (“*Programme Action Publique 2022*”), covering the whole of the general government. In line with previous French spending review exercises, the mandate is broad: the Public Policy Programme 2022 does not only aim at generating savings, but also at improving quality of public services and work environment for civil servants.<sup>7</sup> Conclusions reached as part of the three work streams are scheduled to be delivered in 2018 and subsequently analysed by a ministerial committee (“*Comité interministériel de la transformation publique*”) for deciding on savings (and related reforms) to be done by each ministry.

### 2.3.3. *Multi-year perspective in budgeting*

The medium term perspective in the budget process has been long lacking in France, due to legally grounded principle of annuality of the budget.

The LOLF introduced a level of multi-annual perspective in the budget process via commitment authorisations (“*autorisations d’engagement*”) - that is authorisation to enter into financial legal obligations beyond the budget year.<sup>8</sup> Similarly, the LOLFSS introduced a medium-term perspective in the budget process for social security administrations, which were required since 2005 to provide in the annual Social Security Financing Act a three-year perspective on the evolution of their public finances.<sup>9</sup>

While considered successful, these innovations did not constitute a medium-term framework *per se*. Therefore, in 2007, under the initiative of the Ministry of Finance, the Government decided to address this shortcoming of the budgetary framework by introducing a new process for the preparation of the State Budget Act, requiring line ministries to prepare a so-called State Triennial Budget - that is a detailed budget for the budget year and estimates of expenditures of the following two years.

Following this first step, a modification of the Constitution, in 2008, established the Laws on the Programming of Public Finances, hence finally codifying multi-year budgeting into the French budgetary framework.<sup>10</sup> The Constitution also stipulated that Laws on the

Programming of Public Finances were to be established with regards to the “budget balance objective for general government”, falling however short from setting a fiscal rule.

Ultimately, in response to obligations set out in the European Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, the 2012 Constitutional Bylaw (“*Loi Organique de 2012 relative à la programmation et à la gouvernance des finances publiques*”) codified the detailed content of Laws on the Programming of Public Finances.<sup>11</sup>

### 3. Budgeting across levels of government

#### 3.1. Administrative relationships

State agencies, social security and local governments all have a certain level of autonomy granted by law. The Constitution establishes, in particular, the administrative autonomy (also called “free administration”) of local government and guarantees a certain level of resources, generated through taxes (either as a fraction of national taxes or local taxes, which can be set independently).<sup>12</sup> The Constitution does not include similar provisions with regards to social security but states that social security “financial position and financing needs” shall be approved by an Act of Parliament separate from the State’s own budget. Public agencies are not mentioned in the Constitution, but secondary legislation grants them some level of administrative autonomy, as they have their own board of directors and budgets.

Notwithstanding this administrative autonomy, operational and financial relationships across levels of government are highly intricate in France. At an operational level, traditions and several waves of reforms have resulted in the sharing or transferring of full responsibilities for implementing certain policies from the State to other levels of government:

- Firstly, public agencies, in particular the so-called operators of the State (“*opérateurs de l’État*”), whose operations are less regulated than those of the State (for example in terms of ceiling on number of employees and recruitment of private sector professionals), have been increasingly tasked with defining or implementing State policies, in particular in the environmental and social areas (see Box 3);
- Secondly, social security has been increasingly tasked with delivering universal social benefits on behalf of the State (see Box 1);
- Thirdly, the two main waves of decentralisation, launched in 1983 and 2003, resulted in regions becoming responsible for managing upper secondary schools and vocational training of the unemployed. Departments were assigned the task of operating social and selected health-care programmes and lower secondary schools, while management of urban public transport, kindergartens, primary schools, libraries and museums was given to municipalities.

### Box 3. France: The State and its Operators

In France, public service formulation and delivery has historically been done by ministries, but increasingly, transferred to public agencies in recent years. In 2001, in response to the increasing funding and role of public agencies in public service formulation and delivery, the LOLF prescribed the identification of “contributions in support of public service delivery” in the budget and provision of information about “beneficiaries of these contributions” to Parliament, which were subsequently denoted as “State operators”.

The list of State operators is defined each year by the Directorate of the Budget on a set of criteria. State operators generally combine the following characteristics: 1) they deliver public services; 2) they are mostly financed by the State; 3) they are steered and controlled by the State; and 4) they have legal personality. The number of State operators has decreased from 798 in 2007 to 486 in 2018. The 486 State operators which are identified in the State Budget Act of 2018 have different forms of legal personality as recognised in French administrative and civil law: there are “public administrative establishments” (53%), “public establishments with scientific, cultural or professional character” (30%), “public industrial and commercial establishments” (8%), “groupings of public interest” (3%), “associations” (2%) and a few others.

The State controls the operators through their financing, in particular, the financial contributions and the revenues of earmarked taxes that are established for them, through the nomination of their directors or the participation in their boards of management, and through the supervision of their budgets. The control of the operators is a common responsibility of the Ministry of Finance and the line ministry to which they are attached. Line ministries and state operators should establish multi-annual contracts describing the operator’s missions and objectives, but according to the 2018 State Budget Act only 33 % of the State operators have concluded such contracts.

As required by the LOLF, since 2006, a specific document on State operators is provided to Parliament as an appendix to the State Budget Act. It contains information on their activities for the 53 programmes of the budget in which they are involved. Annual proposals and performance reports attached to the budget contain a section that specify the operator’s financial contributions received from the State budget, their objectives, key figures (of their own budgets), and their employment levels, each specified per programme.

State expenditures for the operators mainly consist of financial contributions (“subventions”) and transfers in favour of third parties (the final beneficiaries). In total, the expenditures for the operators amounted to EUR 44.4 billion in the 2018 budget (of which EUR 28.9 billion financial contributions and EUR 14.9 billion transfers). The amounts can represent 75 % or more of a programme in the State Budget Act.

*Source:* Authors.

The sharing or transfer of responsibilities that took place involved devolution of State resources. The Constitution sets guidelines governing the financial compensation of the transfer of responsibilities from the State to local governments. There are also specific rules regulating the transfer of responsibilities between the State and social security. However, earmarked taxes were increasingly used to cover costs of certain functions transferred from the State to other levels of government as concerns were expressed on the

volatility of State transfers against a backdrop of upward pressure on environmental and social spending.<sup>13</sup>

In this regard, Table 4 below shows that around half the resources allocated to the environment and infrastructure policy of the government consists of earmarked taxes “locked” in to special funds or operators.<sup>14</sup> A recent OECD (2015) study also notes that health care is financed for just around 50% by wage-based contributions and other sources of financing included several earmarked taxes.<sup>15</sup>

Earmarked taxes have become a concern for the Ministry of Finance, reflecting recommendations of international institutions and public finance practitioners to make limited use of such schemes (for example, the OECD Recommendations on Budgetary Governance recommend that “the use of ear-marking of revenue [be] kept to a minimum”). High levels of earmarked taxes are indeed generally considered a challenge for good budgetary management, as they limit resources trade-off between policies and may also create incentives for overspending.

In an attempt to address the problem, the 2012 State Budget Act established “caps” on the level of earmarked taxes flowing to certain State operators - meaning that revenues from those taxes in excess of those ceilings automatically flow back to the State budget. While this constitutes a short-term solution, it added complexity to an already intricate financial relationship across many levels of government which did not fully address budget rigidities created by the numerous earmarked taxes in France. Other solutions, such as the use of transfers or grants, could therefore be explored, as done in Germany, for example, where the federal budgets contains a large annual federal grant for the statutory health insurance.

**Table 4. France: Ressources of the Environment and Infrastructure Policy<sup>1</sup>**

|  | EUR billion | % of total resources |
|--|-------------|----------------------|
| State Budget   | 18,0        | 54%                  |
| Earmarked revenue funds (« Comptes d'affectation spéciale ») | 8,3         | 25%                  |
| Extra-budgetary funds (« Budgets annexes »)                  | 2,1         | 6%                   |
| Earmarked revenue for operators                              | 4,7         | 14%                  |
| Total  | 33,2        | 100%                 |

Note: <sup>1</sup> Policy (“mission”) managed by the Ministry of Environment and Infrastructure (“*Ministère de la transition écologique et solidaire*”) Source: State Budget Act 2018.

### 3.2. Co-existing Budget Frameworks

Reflecting legal principles of administrative autonomy, the State, its operators, social security and local governments all have their own budgets and accounts, which are prepared according to specific requirements at each level of government (see Table 5). However, following the GBCP reforms (see Section 2), the State and public agencies’ frameworks are almost fully consistent, potentially paving the way for consolidating budgets and accounts of the State and its operators. Some level of alignment has also been achieved between the State and social security.

**Table 5. France: Selected Elements of Public Entities Budget Frameworks**

|                              | Main Legal and Regulatory Reference | Accounting Basis for Budgets  | Accounting Basis for Year-end Reports      | Multi-Year Planning                        | Performance   |
|------------------------------|-------------------------------------|-------------------------------|--|--|---|
| State                        | LOLF                                | Cash and Commitments          | Cash and Commitments; Accrual <sup>1</sup> | Detailed three-year forecast               | Indicators and results for each budget line (around 600 in total) |
| Public Agencies              | GBCP                                | Cash and Commitments; Accrual | Cash and Commitments; Accrual <sup>1</sup> | Detailed three-year forecasts <sup>2</sup> | Reported in two attachments to the State Budget Act <sup>2</sup>  |
| Social Security <sup>1</sup> | LOLFSS                              | Accrual                       | Accrual                                    | Aggregated four-year forecast              | Around 15 broad indicators for 6 administrations (around 90)      |
| Local Government             | GBCP                                | Modified Accruals             | Modified Accruals                          | None                                       | None  |

Source: <sup>1</sup> Public agencies within social security sector shall follow principles and rules set in the GBCP;

<sup>2</sup> Forecasts are however not prepared at the required level of detail yet by all public agencies.

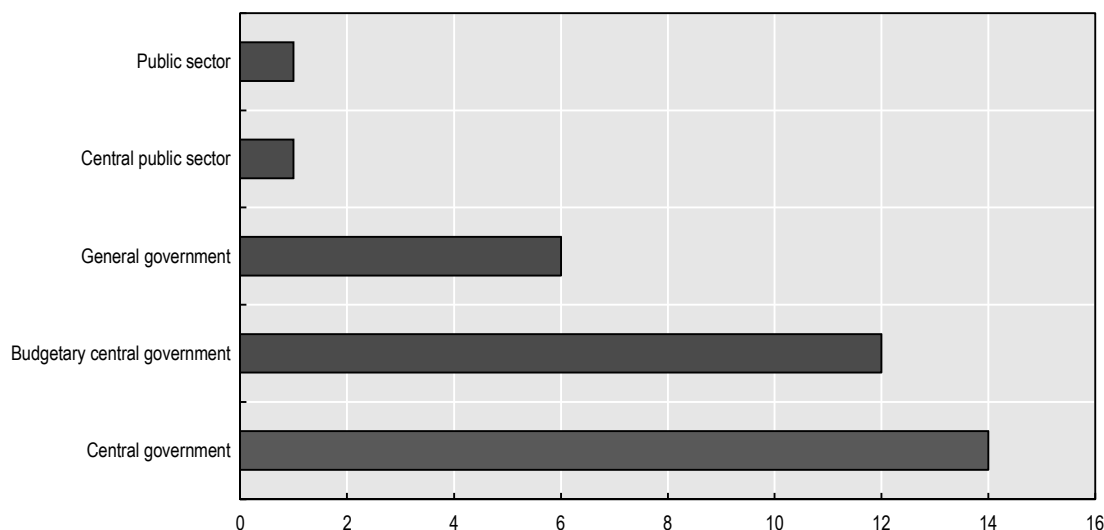
Source: Authors.

Although budgetary frameworks are progressively aligned, the French budget framework remains highly fragmented. Specifically:

- Two annual budget legislations, the State Budget Act and Social Security Financing Act, are presented to Parliament. However, social security benefits that are managed by State operators - e.g. unemployment benefits - are not covered in the annual social security budget (see Box 2);
- The numerous State operators establish budgets that are distinct from those of the ministries they are attached to. In other words, only financial contributions and transfers received from the State budget are submitted for parliamentary approval, although information on their performance objectives, employment and own budgets are documented in appendices to the State Budget Act.

Such fragmentation is relatively rare in OECD countries. As highlighted by a recent OECD survey (see Figure 6), around 60% of OECD countries establish budgets covering at least the central government - that is the State and its agencies. In addition, irrespective of its institutional coverage, the budget generally comprises universal social benefits financed by taxes, as opposed to those financed by premiums. Within this general principle, a variety of practices exists in OECD countries as illustrated in Box 4.

The fragmentation also generates serious challenges. Firstly, it impairs policy makers' understanding of the scale and costs of sectoral policy as information is scattered among numerous budgets and financial reports that are difficult to navigate and reconcile. Secondly, capacity to exercise universal trade-off between public resources allocated to government policies is limited by their presentation in distinct budgets, voted separately by Parliament. This exacerbates budget rigidities generated by high levels of earmarked taxes, as highlighted above.

**Figure 6. OECD countries: Institutional coverage of the Executive's Budget Proposal**

*Note:* For 34 OECD member countries.

*Source:* 2017 OECD Budget Practices and Procedures Survey (forthcoming).

#### **Box 4. Selected OECD Countries: Budgeting for Social Benefits**

**The Netherlands:** The budget of the Minister of Social Affairs covers all social benefits and consists of three chapters: the two chapters of social security and the remainder. The two social security budget chapters are separated into budget financed benefits, and premium financed benefits. The budget financed benefits chapter is a chapter of the State budget, the premium financed chapter does not belong to the State budget (the Budget Law is thus not a State budget law, but a State and social security budget law). The expenditures of all three chapters are fully integrated in the expenditure control system (IBOS) of the central Government budget, with the State budget ceiling covering the budget financed benefits and the remainder and the social security ceiling covering the premium financed chapter. This implies, for instance that upward changes in one benefit must be compensated by downward changes in another (which can be done only by timely changing the underlying substantive laws or decrees). Consequently, both social security chapters are completely expenditure controlled.

**Sweden:** The Budget Bill covers all social benefits paid out by the Swedish Social Insurance Agencies, including healthcare and old-age pensions (a guaranteed pension, a means-tested benefit, provides a minimum pension for persons older than 65 with low or no income and at least 40 years of residency in Sweden). Only income-based and premium pension systems are not included in the budget and accounted in the financial statements of pension funds that belong to the general Government sector.

**United Kingdom:** The medium-term plan and annual budget covers all social benefits, called non- or less discretionary spending (Annually Managed Expenditure; AME). The independent forecasting authority (the OBR) is responsible for forecasting AME spending as part of the twice-yearly fiscal forecasting process. Since 2014, 55% of AME social security spending (excluding the Basic State Pension and automatic stabilisers) has been subject to a multi-year so-called 'Welfare Cap' - a 5-year spending forecast. Performance

against this forecast is assessed by the (OBR). Initially assessed yearly, in 2016 the UK Government revised the Welfare Cap so that it is set and assessed at the start of each 5-year parliamentary term. The enforcement mechanism is a ‘comply or explain to Parliament’ responsibility.

*Source:* Authors.

Accordingly, questions have been raised by some observers about whether the co-existence of the State Budget Act and Social Security Financing Act could be justified from both operational and budgetary perspectives, as the State progressively reasserted its control on social security regimes and increasingly financed social benefits. Although it was not envisioned so far that the whole social security could be integrated within the State Budget Act, other options have been considered. For example, the Court of Accounts proposed that all tax revenue be approved together in a separate act to allow annual trade-offs on resources allocated to policies managed directly by the State and those managed by social security.

With regards to State operators, more generally, a number of observers have questioned the legal requirement to establish budgets that are separate from those of the line ministries they are attached to. In France, unlike, for example, in Sweden and the Netherlands, there is no clear separation between policy development, handled by core ministries, and policy execution, handled by agencies. In other words, both line ministries and State operators may carry out policy and executive tasks relating to similar government policies, making it difficult to justify the existence of separate budgets.

Despite, or maybe because of, this fragmentation, the Ministry of Finance, and indeed the Directorate of the Budget, maintains very strong monitoring and control functions on all budgetary matters across levels of government. Within the Directorate of the Budget, a sub-directorate is tasked with monitoring budget formation and execution of line ministries (this is done through “mirror units”, one for each line ministry); a sub-directorate is tasked with the control of operators’ budgets and expenditures (“*Deuxième sous-direction*”) and another that has similar control function for social security administrations (“*Sixième sous-direction*”). For the latter, the control function is shared with the Directorate of Social Security as explained in Box 5.

#### **Box 5. France: Joint Formulation of Social Security Financing Act**

The formulation of the annual Social Security Financing Act is a bipartite exercise, conducted by the Directorate of Social Security and the Directorate of the Budget within the Ministry of Finance. The Directorate of Social Security is historically part of the Ministry of Social Affairs and has been under a dual supervision from the Minister for the Budget and Minister of Social Affairs since 2007 (this dual supervision was put in place to articulate the DSS role in designing social security policies with its function of guaranteeing the financial equilibrium of the social security accounts).

The budget formulation starts with a forecasting of baseline policies, which take into account relevant regulatory parameters (for instance age thresholds), and economic and demographical developments. In particular, the ONDAM forecast is construed for each of its seven components on the basis of the relevant regulatory parameters and relevant socio-economic and other relevant developments (for instance the development of medical technology and the market prices of medicines).



The baseline report is submitted to the Commission for the Accounts of Social Security (“*Commission des comptes de la sécurité sociale*”) between mid-September and mid-October - that is relatively late compared to the State’s own procedure for budget formulation. This Commission is chaired by the Minister of Social Affairs and the Minister of Finance and includes representatives of the social partners, the social security regimes, medical professions and experts. Its secretary general is appointed by the First President of the Court of Accounts and is mandated to prepare its reports on the reliability of the forecast.

After the social security baselines are fixed by the Commission, the Directorate of Social Security takes the lead in formulating new measures to be submitted to Parliament as part of the Social Security Financing Act but works with other stakeholders for that purpose. The Social Security Financing Act is then presented to Parliament for approval, under the joint responsibility of the Ministry of Social Affairs and Ministry of Finance.

*Source:* Authors.

Over recent decades, in particular, following the adoption of the Stability and Growth Pact which requires the maintenance of general government finances in a balanced position (in underlying, cyclically adjusted terms), the necessity to co-ordinate fiscal policy across levels of government has increased. In France, the Law on Programming of the Public Finances is the legal mean by which the principles of administrative autonomy and joint fiscal responsibility have been combined, as these laws establish a framework for the fiscal policy of each sector of general government (in the form of fiscal targets and expenditure rules) that is consistent with commitments laid out in Stability Programmes, as explained in more detail in Section 3 of this report.

### 3.3. Summary Assessment

Due to legal principles of administrative autonomy, the State, operators, social security and local governments have traditionally established separate budgets and accounts in France, prepared according to different budgeting and accounting rules and principles designed to suit their specific circumstances.

Notwithstanding this administrative autonomy, operational and financial relationships across levels of government are highly intricate, with a significant number of policies transferred over time from the State to other actors, or shared between two or three actors. This generated significant, and increasingly complex, transfers of resources across levels of government, including through several earmarked taxes.

Over the last two decades, evolution of the State’s budgeting framework in response to growing demands for transparency and fiscal responsibility, discussed in Section 2, have allowed the introduction of some level of harmonisation in budgeting practices across levels of government. In particular, the State and operators’ frameworks have been almost fully aligned following a major reform in 2016, which allows greater consistency and clarity of budget information.

The monitoring and control functions of the Ministry of Finance on all budgetary matters across levels of government have also been strengthened. Within the Directorate of the Budget, dedicated sub-directorates are tasked with monitoring budget formulation and execution of operators and the social security. Also, controls over earmarked taxes have been developed, with ceiling established on tax revenues flowing to certain operators.



Despite notable progress, the existence of distinct budgets for the State, operators, social security and local government, as well as high levels of earmarked taxes, is unusual for OECD countries and generates a number of challenges. In particular, the fragmentation of the budget framework still limits Government's and Parliament's understanding of the scale and total cost of public policies and, also, their capacity to exercise trade-offs for allocating resources based on policy priorities and overall fiscal strategy.

Therefore, the Government could explore ambitious ways to address the challenges underlined above. The reintegration of social benefits funded by taxes (as opposed to premiums) in the annual State budget could be an option to consider. However, in the case of France, a full overview of social spending could be provided only in a budget that would cover the whole of the central government sector, as social benefits are delivered by the State, some of its operators and social security administrations.

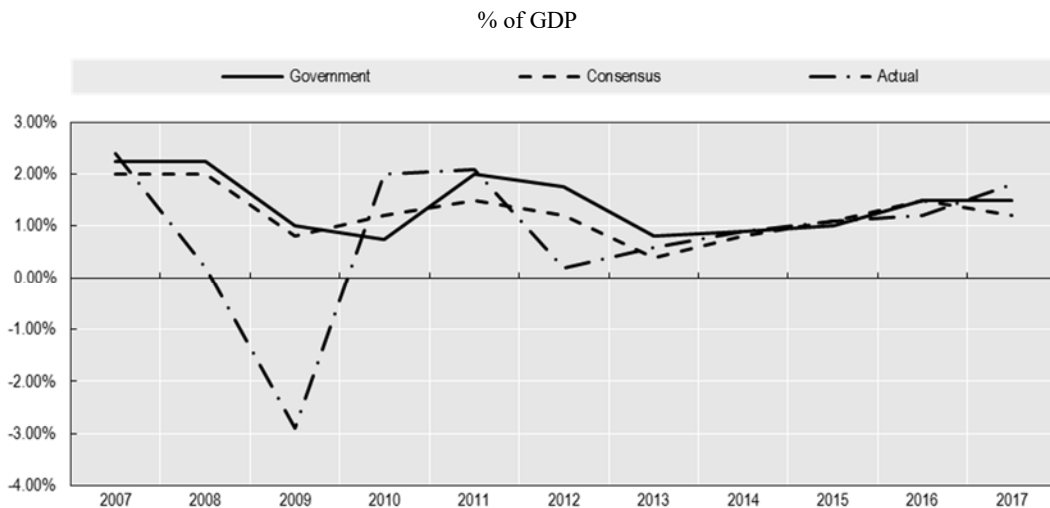
## 4. Multi-year perspective in budgeting

### 4.3. Macroeconomic and revenue forecasts

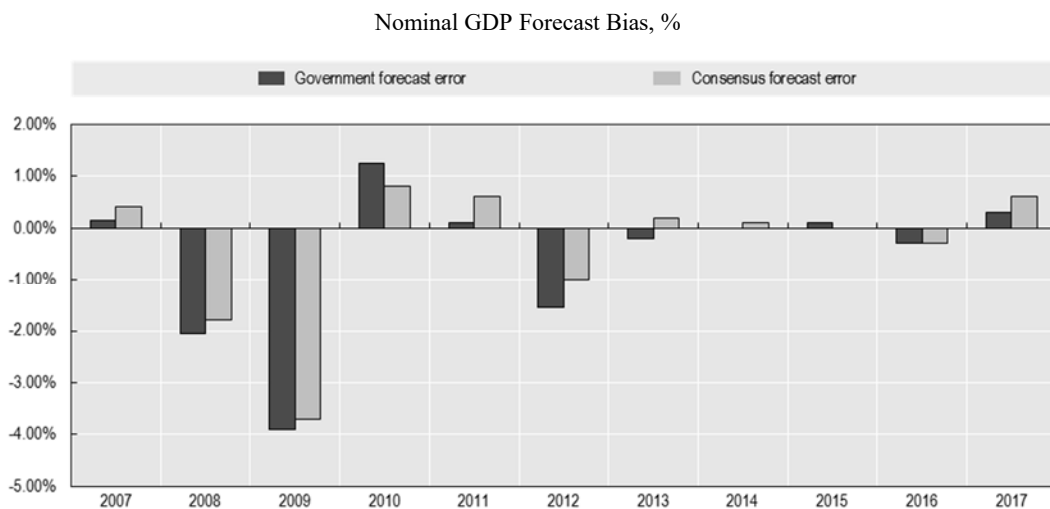
Macroeconomic forecasting is made by the Directorate General of the Treasury ("*Direction du trésor*") of the Ministry of Finance. It takes place twice per year, first in the winter in order to prepare the Stability Programme and second in the summer in order to prepare the State Budget Act and the Social Security Financing Act.<sup>16</sup> The results of the main exercises in winter and summer are summarised in so-called Technical Economic Forecasts that cover the entire French economy. These Technical Economic Forecasts are submitted to the cabinet of the Minister leading to adoption of the Government Forecasts.

Macroeconomic forecasts prepared for the stability program and every Budget Act are submitted to the review of an independent fiscal institution, the High Council of Public Finances (see Section 7), which advises on the credibility of the projections. As shown in Figure 7, GDP forecasts have been regularly overoptimistic over past decades, but reliability increased over recent years - in fact, since the creation of the fiscal institution, forecast errors have decreased from 1.5% to less than 0.20% on average, as shown in Figure 8.

After the summer exercise, Government Forecasts are sent to the other directorates of the Ministry of Finance and the Ministry of Social Affairs in order to serve as the basis for estimation of revenue (taxes and social security premiums) in annual budgets. Revenue forecasts are done under the basis of existing legislation and proposals for new measures.<sup>17</sup> For the State, revenue forecasting is carried out by an administrative committee gathering the Directorate of the Budget (for co-ordination), the Directorate General of the Treasury (for the macro-forecasts), the tax administrations, and the tax legislation department (for the impact of new measures). A similar process is set for social security, co-ordinated by the Directorate of Social Security. These administrative committees meet several times a year to inform the Minister, update forecasts and support decision making on new measures.

**Figure 7. France: Nominal GDP forecast history (2007–17)**

Source: Directorate of the Budget.

**Figure 8. France: Forecast error (2007–17)**

Source: Directorate of the Budget.

Macroeconomic and fiscal forecasts prepared in the summer are published in the Economic, Social and Fiscal Report (“*Rapport économique, social et financier*”), an appendix to the State Budget Act. The report presents multi-year forecasts for the GDP and detailed discussion of the economic outlook (balance of payment, household consumption, employment, inflation), including the risks and uncertainties surrounding the forecast and alternative scenarios. Fiscal forecasts are presented with analyses of trends for central government revenue and spending and provide detailed analysis for each sector of government.

The Constitutional Bylaw of 2012 does not require the HCFP to deliver an opinion on revenue forecasts, though it stipulates that the independent fiscal institution evaluates “coherence between the structural balance forecast, formulated in the annual State Budget

Act and revenue forecasts in Law on the Programming of Public Finances”. In order to do this, the HCFP also verifies coherence between revenue estimates for taxes and social security premiums (e.g. are they based on similar macroeconomic forecasts?).

In recent years, the HCFP, and the Court of Accounts, have been critical of revenue forecasts with regards to the clarity and completeness of data and documentation on forecasting methods. Overoptimistic macroeconomic forecasts mentioned above have also translated to overoptimistic revenue forecasts in recent years, even though the situation was reversed in 2017 when the GDP significantly performed above initial estimates.

#### 4.4. *Medium-term dimension of budgeting*

As shown by the calendar for budget preparation (see Table 6), annual budget formulation in France is intended to be anchored in a multi-year perspective formulated in two documents, the Stability Programme and the Law on the Programming of Public Finances.

The Stability Programme is the first budget document prepared as part of the annual budget formulation cycle. Stability programmes are an important instrument of the EU surveillance of national budgetary policy, which present the development path of the public finances for the previous year, the current year and the three following years, based on “the most plausible and most prudent” macro-economic forecasts. The Stability Programme must in particular contain information on the medium term fiscal objective (so called OMT) for general government structural balance.<sup>18</sup>

In France, the Stability Programme is prepared annually under the lead of the Directorate for the Treasury and in co-ordination with the Directorate of the Budget and other relevant stakeholders.<sup>19</sup>

EU regulations require the Stability Programme to be submitted to the European Commission around half a year before the Law of the Programming of Public Finances and annual budgets are finalised. Stability Programme forecasts are therefore based on the previous year’s State Budget Act and Social Security Financing Act (updated of any significant policy decision) and also include estimates of potential savings that have not been formally agreed yet as part of the budget formulation process nor approved by Parliament. This regularly leads to discrepancies between the Stability Programme and Law on the Programming of Public Finances, on the year both are prepared.<sup>20</sup> The Stability Programme and Law on the Programming of Public Finances are in fact never fully aligned, as Stability Programme trajectories are revised annually, while those of the Law on the Programming of Public Finances are fixed for the whole period they cover.

The Law on the Programming of Public Finances is prepared every two or three years by the Directorate of the Budget. The time period covered in these laws must be at least three years according to the 2012 Organic Budget Law, but the most recent Law on the Programming of Public Finances covers a five-year period - that is the entire mandate of the President - hence becoming *de facto* the government “fiscal strategy”.

Laws on the Programming of Public Finances translate the same year’s Stability Programme’s OMT into medium-term fiscal targets for each general government sector and specify means for meeting these targets.<sup>21</sup> More specifically, the Law on the Programming of Public Finances specifies the path of adjustment for each sector during the period covered by the law that will allow the attainment of the OMT; the structural effort that is required for that purpose; and sets related expenditure rules for the State and operators.<sup>22</sup>

**Figure 9. France: Building Blocks of the 2018 Law on the Programming of Public Finances**

|                  | Year 1  | Year 2  | Year 3  | Year 4          | Year 5          |
|------------------|---|---|---|-----------------|-----------------|
| State            | Pg 1   Pg 2   Pg #<br>Pg 4   Pg 5   Pg ...<br>State triennial budget                    | Mission 1   Mission 2<br>Mission 3   ...<br>State triennial budget                      | Mission 1   Mission 2<br>Mission 3   ...<br>State triennial budget                      | Global forecast | Global forecast |
| Operators        | Programme 1   Programme 2<br>Programme 3   ...<br>Individual operators triennial budget | Programme 1   Programme 2<br>Programme 3   ...<br>Individual operators triennial budget | Programme 1   Programme 2<br>Programme 3   ...<br>Individual operators triennial budget | Global forecast | Global forecast |
| Social Security  | Regime 1   Regime ...<br>Three-year forecast  | Regime 1   Regime ...<br>Three-year forecast  | Regime 1   Regime ...<br>Three-year forecast  | Global forecast | Global forecast |
| Local Government | Global forecast   | Global forecast   | Global forecast   | Global forecast | Global forecast |

Source: Authors.

Laws on the Programming of Public Finances are structured around distinct “building blocks” (see Figure 9):

- The first block is the State’s triennial budget, which 1) forecasts State revenue and 2) sets binding ceilings on expenses for the budget year (Y) and next year (Y+1), as well as indicative ceilings for the year after (Y+2). Ceilings are at the level of missions and programmes on the budget year and missions for the two subsequent years;
- The second and third blocks are the three-year forecasts of operators and social security revenue and expenditures are based on information coming from the operators’ own budgets and the Social Security Financing Law. Forecasts are done at programme level for operators and for each branch of social security; and
- The last block comprises broad estimates of revenue and expenses of local government.

Ceilings and forecasts prepared for each level of government are fixed, meaning that they are revised only when a new Law on the Programming of Public Finances is adopted. In years that a Law on the Programming of Public Finances is made, the Ministry of Finance makes sure that the State Budget Act and Social Security Financing Act are consistent with the fiscal targets set in the Law. However, as the Constitution does not establish any hierarchy between the Law on the Programming of Public Finances and annual budgets, deviations from medium-term fiscal targets in subsequent Budget Acts and Social Security Financing Acts are legally possible.

The principal means for operationalising medium-term fiscal targets in France is expenditure rules, an approach that is not widespread in OECD countries. In particular, the State Discretionary Expenditure Rule laid out in Laws on the Programming of Public Finances sets a mandatory ceiling on expenditure growth that is aligned with medium-term objectives. Growth targets have varied over time: in recent years, they have ranged between 0 to 1 percent. Although expenditure rules are enshrined in law, there is no corrective mechanism in case they are missed. In recent years, they prove to be an effective tool for

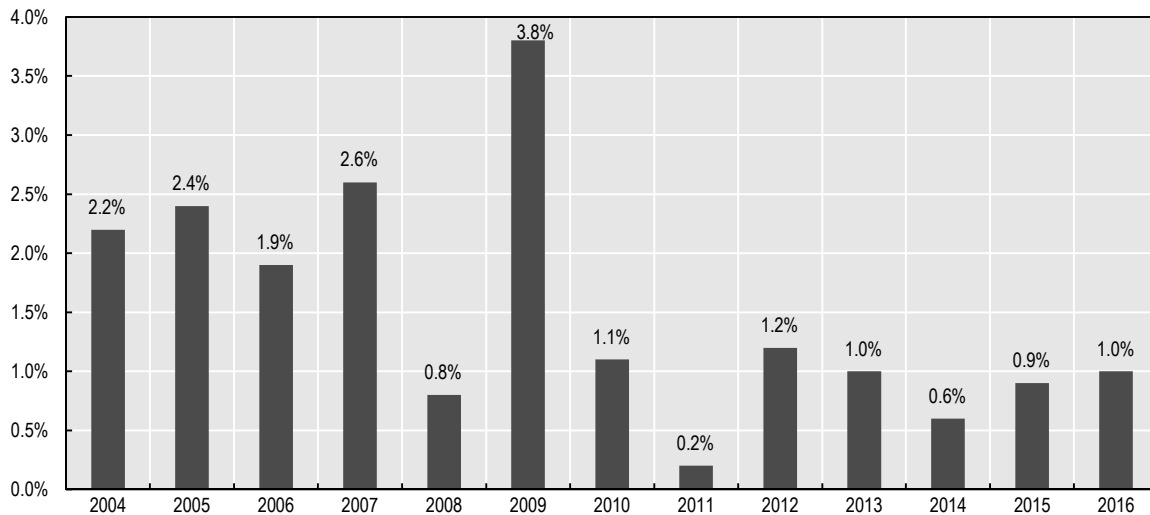
monitoring spending: growth of State discretionary expenditure has noticeably slowed, from an annual average of around 2% prior to 2009 to around 1% after that date (see Figure 10).

However, gaps in successive expenditure rules have limited their usefulness for meeting overall medium-term fiscal targets set in the Laws on the Programming of Public Finances. Specifically, expenditure rules, in the past, have concerned only the State and focused on discretionary spending and did not cover, for example, State operators' expenditures, certain transfers to local government, spending of some extra-budgetary funds, some earmarked taxes to third parties and tax expenditures. Recently, expenditures of the government's Growth Package ("*Programmes d'investissements d'avenir*", or PIA) have also been defined as being outside the scope of the State Discretionary Expenditure Rule.

Therefore, to discourage opportunistic changes in the distribution of spending, the institutional coverage of the State expenditure rule has been progressively revised by the Ministry of Finance. For example, it was extended to State operators. Its scope was recently expanded too. The Law on the Programming of Public Finances 2018-22 lays out two expenditure rules: the "traditional" State Discretionary Expenditure Rule and a Total Spending Target ("*objectif de dépenses totales de l'Etat*", or ODETE) which adds, among other elements, debt interest payments, pensions and certain transfers to local government to expenditures covered by the State Discretionary Expenditure Rule.

**Figure 10. France: State Expenditure Real Growth Rate (excl. Tax Credits)**

(Year-to-year)



Source: Directorate of the Budget

In addition to the State expenditure rules, the specification of a cap for health care spending, the National Objective for Healthcare Spending (so called ONDAM), is another important mean for meeting medium-term fiscal targets in France. The ONDAM represents the total amount of health spending that the parliament sets as an objective for a given budget year, in the Social Security Financing Act. The annual ONDAM figure is built on the basis of legal and regulatory parameters and other relevant developments (for instance the

development of medical technology and the market prices of medicines). It is split into three distinct elements representing each type of health service provider: ambulatory care, hospitals and medico-social centres, with ambulatory care and hospitals absorbing most of the ONDAM.

After years of missing the target, the introduction of monitoring and corrective mechanisms, as described below, has improved track records with meeting the targets:

- The ONDAM forecast (along with the forecast of all social security expenditure and revenue) is submitted to the review of the so called Commission for the Accounts of Social Security (“*Commission des comptes de la Sécurité Sociale*”) between half September and half October - that is before the Social Security Financial Act is laid out in Parliament. This Commission, chaired by the Ministry of Social Affairs, includes representatives of the social partners, the social security regimes, medical professions and experts. Its Secretary General is appointed by the First President of the Court of Accounts and is mandated to prepare its reports;
- Since 2004, an Alert Committee (“*Comité d’alerte*”) is tasked with steering compliance with the cap thorough the budget year. The Alert Committee has also the power to reduce payments and to withhold a portion of anticipated spending as a buffer against the risk of a budget overrun;
- A Steering Committee of key government actors and representatives of social security has been constituted to improve co-operation in meeting the ONDAM. This Steering Committee gathers representatives from Ministries of Social Affairs and Finance, as well as representatives from social security. It monitors health expenditures covered by the ONDAM every month, implements all savings that have been decided to help meet the target, and prepares the ONDAM for the following year. This committee works on the basis of the financial information provided by an ONDAM Statistical Committee which reports monthly on health spending for each ONDAM sub-target.

Overall, the introduction of Laws on the Programming of Public Finances, along with related expenditure rules, can be said to have brought a fundamental change to the budgeting approach in France, by codifying the medium-term dimension of the budgeting process and allowing consistency between commitments made by the Government at the European Union level and its national fiscal policy.

Notwithstanding this undeniable progress, some observers have noted that anchoring the Law on the Programming of Public Finances to the relatively complex and technical fiscal rules of the European Union has impaired the capacity of parliamentarians to understand and adhere to the Government’s fiscal policy.

In addition, fiscal targets stated in the Stability Programmes, and indeed in Laws on the Programming of Public Finances anchored to Stability Programmes, have been missed by wide margins, not only in the out-years after the upcoming budget year but also in the budget year, even if this has been less the case in the past two to three years (see Figure 11).

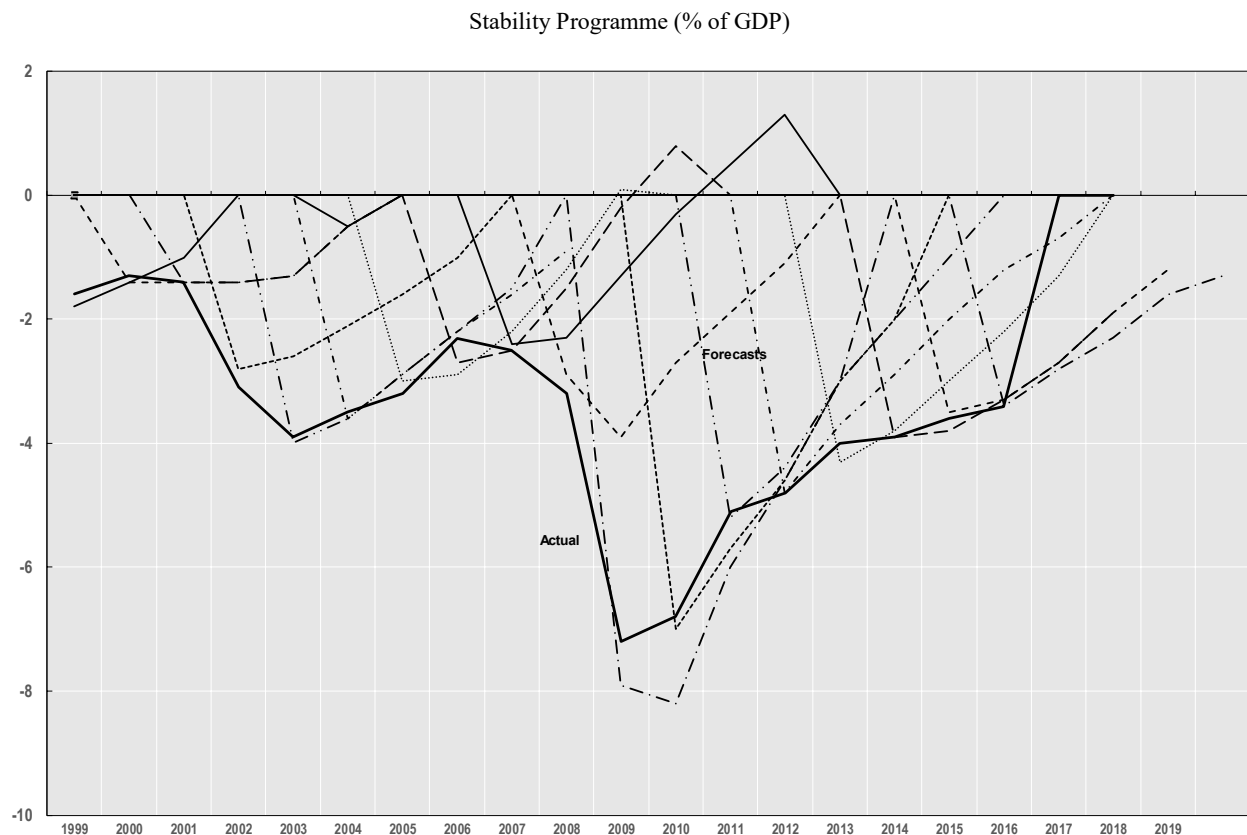
Explanations for overruns shared by most observers include the scope of expenditure rules, optimistic fiscal forecasts and weaknesses in expenditure prioritisation:

- Despite successive revisions and improvements, State expenditure rules do not cover all State expenditure. The spending cap applying to social security also targets only health care spending, leaving aside pensions and other types of benefits. Specifically, in 2018, the State expenditure rules and ONDAM were covering

respectively only 19% and 15% of general government spending (of which 19% corresponds to the local government sector);

- The practice in recent years of establishing relatively optimistic revenue and spending forecasts, instead of conservative ones, has generated limited margin to absorb fiscal emergencies - and such emergencies have been constant in France over recent years, in the wake of the financial crisis, but also, more recently, the terror attacks;<sup>23</sup>
- Lastly, some observers consider that main challenges for delivering medium-term targets are linked to reluctance of politicians and public managers to face, both individually and collectively, the hard facts of expenditure prioritisation. This is due to the predominant culture of bilateral annual budgetary discussions and lack of political sanction when targets set in the Law on the Programming of Public Finances are not complied.

**Figure 11. France: Fiscal targets history**



Source: Directorate of the Budget.

There have therefore been, several calls during the last decade, for further reinforcing the medium-term perspective in the budget process. Some observers proposed, in line with OECD recommendations on Budgetary Governance, that a multi-year budget providing more details be prepared to complement expenditure rule and bolster the credibility of the Laws on the Programming of Public Finances by making clear, in concrete terms, how the deficit target would be reached. For example, Camdessus (2010) recommended that a multi-year budget framework programme be voted by each new parliament, where the new

government lays down the fiscal programme in a very detailed manner in its coalition agreement.

#### 4.5. Management of budgetary risks

Beyond expenditure rules directly anchored to meeting medium-term fiscal targets set in the Law on the Programming of Public Finances, the Ministry of Finance has developed over time a range of mechanisms for measuring and, where possible, mitigating a number of budgetary risks that could create pressures on public finances over the short and medium term. These risks are, firstly, budgetary risks arising from expenditures that are not entirely amenable to planning and, secondly, risks that are linked to legal commitments done by the Government but whose materialisation is uncertain.

Budgetary risks arising from expenditures that are not entirely amenable to planning focus most of the Ministry of Finance's attention. They comprise the public-sector payroll<sup>24</sup>, tax expenditure and debt interests' payments, which are identified, measured and discussed in the budget documentation. Measures for mitigating these risks have been established in most cases, as summarised below:

- With regards to public sector payroll, the LOLF instituted a ceiling on State employment ("*plafonds d'emploi*") since 2006, which was extended in 2009 to State operators;
- Tax expenditures, which have grown almost constantly over the last decades, are measured and described in the State Budget Act and have been progressively submitted to a set of prudential rules, as described in Box 6;
- Risks associated with interest rates are also closely monitored. In particular, the impact of a 1% increase in interest rates on debt interest spending of the next two years is assessed annually by the Directorate General for the Treasury and Directorate for the Budget and disclosed in the State Budget Act, as well as considered for defining the debt management strategy.

A number of risks that are linked to legal commitments done by the Government, but whose materialisation is uncertain, are also identified in budget documents and closely monitored:

- State guarantees are specified, quantified and authorised in the State Budget Act and their stock (as well as the overall stock of contingent liabilities) measured in the year-end accounts presented to Parliament;<sup>25</sup>
- Costs associated with PPPs are disclosed in the State Budget Act and total liabilities are measured in the year-end accounts. Strict legal requirements have been set for entering into PPPs in France and an Infrastructure Financing Advisory Unit ("*Mission d'appui au financement des infrastructures*") is tasked with providing advice and support to public entities in this regard.

Other significant budgetary risks are identified but are not measured or discussed in budget documentation. They include:

- Risks associated with natural disasters are monitored by the Directorate for the Treasury. A public-private sectors risk sharing mechanism system is expected to limit potential costs for public finances in case of a natural disaster;<sup>26</sup>
- Risks associated with SOEs, monitored by the Ministry of Finance's Shareholding Agency ("*Agence des participations de l'État*", or APE). The Shareholding Agency's remit is to act as a shareholder for the Government in order to "develop its assets, maximise the value of its stakes" but also minimise its financial risks.



SOEs financial situation is shown in their audited financial accounts and discussed in the annual report of Government Shareholding Agency;<sup>27</sup>

- Risks associated with the financial sector are monitored by the High Council for Financial Stability (“*Haut Conseil de stabilité financière*”, or HCSF). The High Council for Financial Stability is tasked with supervising the financial system for safeguarding its stability and ensuring a sustainable contribution of the financial sector to economic growth.

Notwithstanding all actions taken by the government to identify and address budgetary risks, there is not yet a systematic approach for measuring, disclosing and mitigating budgetary risks in France. It is therefore difficult to form a clear and comprehensive view of the full range of pressures that could potentially affect public finances and assess the completeness and relevance of policies in place for limiting these pressures.

For example, risks associated with tax policy were only just recently highlighted due to the sharp increase of tax credits liabilities and provisions for tax litigations reported in the year-end financial accounts. In the wake of a ruling by the French Constitutional Court bearing unprecedented fiscal consequences, a mission of the General Inspectorate for Finances (“*Inspection Générale des Finances*”, or IGF) was launched to identify possible monitoring and mitigation strategies.

Beyond short and medium term budgetary risks, long-term sustainability of public finances is formally assessed as part of the European Commission’s Aging Report, published every three years as well as the European Commission’s yearly Debt Sustainability Monitor. These documents present impacts of long-term demographic and spending projections on debt levels, based on hypothesis jointly developed between the European Commission and Member States. Sustainability of public finances is also discussed in a chapter in the annual Stability Programme, the contents of which, largely draws from the Aging Report and the Debt Sustainability Monitor.

The Ministry of Finance does not publish its own assessment of the long-term sustainability of public finances but several such documents are elaborated by other public institutions. In particular, the Pensions Advisory Council (“*Conseil d’orientation des retraites*”) was also established by Decree in 2000 with a remit for overseeing pension regimes within the overall social security system and proposing policy evolutions for both insuring sustainability of the pension system and not impairing living standards of pensioners. The Pension Advisory Council is comprised of parliamentarians, senior officials, experts and representatives of civil society and works under the auspices of the Prime Minister’s Commissariat-General for Strategy and Foresight (so called “*France Stratégie*”).<sup>28</sup> Moreover, since 2014, the Pension Steering Committee (“*Comité de suivi des retraites*”), an independent authority, has the responsibility to publish an annual opinion on the situation of the pension system with regard to its statutory objectives, especially its short and long-term financial viability.

### Box 6. France: Managing tax expenditure

Tax expenditures are defined in France as “legal or statutory measures (tax deductions, tax credits, tax exemptions, rate relief) that imply lower tax revenues for the State compared to a “normal” tax”.

The “Ways and Means” appendix to the State budget Act discloses a list of new tax expenditures. For all tax expenditure, it shows the number of recipient and cost estimation for previous, current and following year. In addition, the cost of tax expenditure associated with each programme of the budget is measured in the annual *Performance Plan*. The “Ways and Means” will also include, starting from 2019, a detailed analysis of the 10 most significant tax expenditures.

Several means have been used for monitoring and mitigating risks associated with tax expenditures over the years, which can be summarised as follows:

- Since 1980 (1980 State Budget Act), the government is required to evaluate tax expenditures in the “Ways and Means” appendix to the State Budget Act;
- Since 2001 (LOLF): each budgetary programme report includes an evaluation of associated tax expenditures;
- Since 2009 (Law on the Programming of Public Finances 2009-2013): new tax expenditure must be compensated with the ending of another one, new tax expenditure must be evaluated within 3 years;
- Since 2014 (Law on the Programming of Public Finances 2014-2018): tax expenditures and tax credits are capped every year;
- Since 2013: several meetings are held every year in May between the Budget Directorate and the line ministries, the so called tax policy conferences.

*Source:* Authors.

#### 4.6. Summary assessment

In France, macroeconomic and revenue forecasts provide a comprehensive picture of the medium-term perspective for general government finances. The credibility of macroeconomic forecasts, in particular, has notably increased since the establishment of the High Council for Public Finances, the French Independent Fiscal Council.

The medium-term dimension of budgeting is also strong. Laws on the Programming of Public Finances, introduced only a few years ago, represent an important step forward that profoundly changed budgetary processes by setting medium-term fiscal targets for each level of government, anchored to government commitments formulated in Stability Programmes, the main instrument of the EU surveillance of national budgetary policy.

Also, expenditure rules set clear parameters for meeting fiscal targets for the State. Their efficiency increased over time, as their scope was revised to discourage opportunistic changes in spending. These spending rules were enforced particularly rigorously over the last years. For social security, a cap on health-care spending was introduced in an attempt to keep expenditures under control. To prevent optimistic policy assumptions or unanticipated outlays, which regularly incurred in initial years, monitoring and corrective mechanism have been introduced that have prevented major slippages and deviations from fiscal targets.

Finally, to ensure the resilience of medium-term plans, a number of short and medium-term budgetary risks, in particular with regards to payroll and tax expenditures, are closely monitored by a variety of actors within and outside the Ministry of Finance. Longer-term sustainability is assessed as part of forecasting exercises co-ordinated by the European Union.

Reflecting the experience of the initial years of medium-term budgeting, the Ministry of Finance could now look into improving some of its practices, as the current framework has not proven constraining enough to meet ambitious fiscal targets in the past.

Optimistic biases with revenue forecasts have been frequent in the past and there should be a more rigorous, detailed and transparent approaches to their formulation. Such transparency is particularly important as these forecasts are not submitted to systematic review by the French independent fiscal institution.

A priority area for reform for the Government should be to ground its medium-term plans on clear expenditure prioritisation done at the political level and to set, on this basis, more detailed parameters for preparing subsequent budgets. This could be achieved by including a phase of governmental deliberation and also through a spending review, both ahead of the preparation of the Law on the Programming of Public Finances. This would, in turn, allow line ministries to establish reliable multi-year spending forecasts at line item level.

Unforeseen events have made it particularly difficult, in recent years, to deliver medium-term plans in France. Experiences of peer OECD countries highlight however that a “fiscal margin” could efficiently act as a buffer to absorb emergencies or new priorities that inevitably arise after medium-term plans have been laid out.

Finally, budgetary risks analysis is scattered and factored only to a very limited extent in the policy-making process. Building on existing practices, the Ministry of Finance could therefore strengthen its practices in this area, and consider options for publishing a summary report on budgetary risks and management responses that would inform in particular consideration and debates about possible pressures for delivering medium-term fiscal targets.

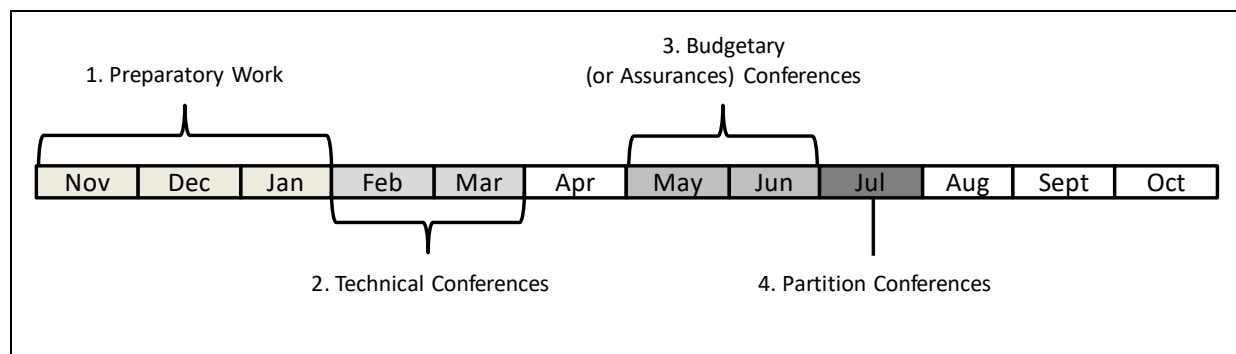
## 5. Annual budgeting processes for the State

### 5.1. Budget Formulation

For the State, the annual budget process is structured around four “rounds” of bilateral discussions between the Directorate of the Budget and line ministries: the Preparatory Work (“*travaux internes prospectifs et stratégiques*”), Technical Conferences (“*conférences techniques*”), Budgetary Conferences (“*conférences budgétaires*”) and Partition Conferences (“*conférences de répartition*”), as shown in Figure 12 and described in detail below.

It is to be noted that, in 2017, to foster the culture of collective decision making and commitment to fiscal targets, the Prime minister started the annual budget formulation with a Governmental seminar aimed at discussing ministerial ceilings in a single decision moment involving all members of Government. The budget formulation was subsequently rolled out according to “traditional” bilateral procedure.

Figure 12. France: The annual budget formulation



Source: Authors, based on Directorate of the Budget information

In November of the year before the budget formulation gets under way in earnest, the Directorate for the Budget commences its Preparatory Work - that is the process of identifying potential sources of savings. This is an internal but strategic phase for the Directorate of the Budget, during which it determines, based on its monitoring of budget execution and insight in government policies and priorities, the “room for reform” in advance of the budget formulation and formulates proposals to the Minister of Finance.

Following Preparatory Work, so-called Framework Letters (*“lettres de cadrage”*) are sent to line ministries after being drafted by the Directorate of the Budget, endorsed by the Cabinet of the Budget Minister, the Cabinet of the Prime Minister and ultimately signed by the Prime Minister. Framework letters reflect ceilings and expenditure rules set in the Law on the Programming of Public Finances; provide guidelines for evolution of expenditures and public employment; and fixes as appropriate other grand lines of annual budgetary policy.

The first bilateral discussions between the Directorate of the Budget and line ministries, the Technical Conferences, start in February. Technical Conferences focus on analysing budget execution of the previous and current years. They also aim at measuring costs associated with existing policies (*“tendanciel”*) and potential new measures.<sup>29</sup> The latter have in practice always consisted of savings in order to attain the objectives of the expenditure rules (*“mesures d’économies”*).

Budgetary Conferences are long, separate rounds of bilateral negotiations that take place in May and June to confront views of the Directorate of the Budget and line ministries on resource allocations for the upcoming budget year.<sup>30</sup> As budgets are formulated and voted on both cash and commitment bases, both appropriations (*“crédits de paiement”*, or CPs) that are upper limit for cash outlays over the budget year and commitment authorisations (*“authorisations d’engagement”*, or AEs) that are upper limits for entering in to a contract that span more than one year (e.g., investment projects) are discussed as part of these conferences.<sup>31</sup>

Budgetary Conferences are expected to reflect discussions and orientations from the Technical Conferences, but antagonistic positions nevertheless regularly occur that have to be resolved by the Prime Minister. In fact, each year, hundreds of items are finally decided by the Prime Minister and his Cabinet as part of the so-called arbitration process. Performance conferences take place simultaneously, to discuss performance objectives and indicators that will be disclosed in the budget proposal, based on results achieved in the previous years and potential recommendations of the Court of Budgeting in France

Results of Budgetary Conferences are then summarised in a table showing resources allocated to each mission for the upcoming budget year (or for the whole period covered by the State triennial budget), which is included in the Pre-Budget Report (“*Rapport préparatoire au débat d’orientation des finances publiques*”) presented to Parliament before 30 June each year. The Pre-Budget Report also explains main changes to the government’s economic and fiscal policies and expected path of the general government finances for the next year.

Following publication of the pre-budget report, the Prime Minister’s Ceilings Letters (“*lettres-plafond*”) notify ministries of their final resources for the upcoming budget year. The letters contain the cash and commitment ceilings per mission and programme, ceilings on earmarked taxes for the State operators and employment ceilings for the ministries and State operators. The ceiling letters also contain guidelines for policy adjustments required to attain the implied savings.

Partition Conferences are then held in July to finalise the partition of commitment authorisations and expenditures per programme, provided that the mission ceiling are respected. In particular, partition conferences aim at ensuring that all “unavoidable” - that is expenditures that the State already committed to towards third parties - are adequately covered.

At this stage, two inter-ministerial meetings are also held between the Directorate of the Budget and the finance directorates of line ministries. One fixes the transfers between ministries as a consequence of policy reorganisations (i.e. transfers of tasks between ministries), allowing the transformation of “constant” ministerial budgets (“*à périmètre constant*”) to current budgets (“*à périmètre courant*”). The other fixes the number and nature of the articles of the State Budget Act (not more than 30 articles). Additional arbitration by the Prime Minister (or his Cabinet) may be necessary at the ultimate stage of the partition conferences.

The budget proposal is then finalised in August and September and presented in Parliament in October.

Laws on the Programming of Public Finances (and the State triennial budget which is enshrined within the Law) are formulated as part of these four stages. In years when a Law on the Programming of Public Finances is prepared, the State triennial budget and annual budget are established simultaneously as part of Technical, Budgetary and Partition Conferences.

In the year that follows the adoption Law on the Programming of Public Finances, the annual budget is prepared on the basis of ceilings set in the previous year’s State triennial budget, even though there is no legal ground for such a requirement. Budgetary Conferences are then called Assurance Conferences (“*conférences de sécurisation*”), as discussions are supposed to focus on a limited number of to resource reallocations, in light of budget execution in the first year or unexpected circumstances;

In the second year that follows the adoption of the Law on the Programming of Public Finances, a new Law is prepared and the State triennial budget and annual budget are again established simultaneously.

**Table 6. France: Annual calendar for budget formulation (State and Social Security)**

|                  |  |
|------------------|--|
| <b>February</b>  | <ol style="list-style-type: none"> <li>1. The Prime Minister sends a framework letter to the line ministers, which provides objectives for the expenditure subjected to budget norms, preliminary ceilings for expenditures per mission and an approximate estimate of the necessary savings.</li> <li>2. The “technical conferences” are held between the Directorate for the Budget and officials of the line ministries. The conferences focus on existing policies costing and possible savings.</li> <li>3. The Commission publishes its country reports assessing economic and social policies.</li> </ol>   |
| <b>April</b>     | <ol style="list-style-type: none"> <li>1. The Government presents the EU stability programme, containing objectives for expenditure, revenues and the budget balance for the three following years to Parliament, together with the advice of the High Council of Public Finance.</li> <li>3. The stability programme is sent to the European Commission.</li> <li>4. The “performance conferences” between the Directorate for the Budget and officials of the line ministries are held. The focus on performance reports to be attached to the State Budget Act.</li> </ol>  |
| <b>May</b>       | <ol style="list-style-type: none"> <li>1. The Government sends the final budget law over the previous year to Parliament, together with a report of the Court of Accounts and an opinion of the High Council of Public Finance.</li> </ol>   |
| <b>June</b>      | <ol style="list-style-type: none"> <li>1. The “budgetary conferences” or (in years when no new law of programming is made) “assurance conferences” between the Directorate for the Budget and officials of the line ministries, started in May, are continued and concluded. The conferences focus on the expenditures per programme and the necessary savings.</li> <li>2. The European Commission sends to the Council of the EU its proposal for recommendations to the Member States, on the basis of their stability programmes.</li> <li>3. The Court of Accounts publishes its report on the perspectives of the public finances.</li> </ol>  |
| <b>July</b>      | <ol style="list-style-type: none"> <li>1. The EU council sends its recommendations for the upcoming budget to the Member States.</li> <li>2. Parliament debates the multi-year perspectives on the basis of a report of the Government, which takes the recommendations of the EU Council into account, complemented by a report from the Court of Accounts.</li> <li>3. The Prime Minister sends “ceilings letters” to the line ministries which definitely fix the expenditures per mission and the employment ceiling per ministry. The “conferences of partition” are held that fix the expenditures and employment per programme.</li> </ol>  |
| <b>September</b> | <ol style="list-style-type: none"> <li>1. The commission of the social security accounts examines the accounts of the social security domain covered by the annual law on the financing or social security of the current year and the following year.</li> <li>2. The proposed State Budget Act for the following year is sent to the National Assembly before the first Tuesday in October, together with the advice of the High Council of Public Finance.</li> <li>3. In years when a new law of programming is made, the Government simultaneously sends the proposed law of programming.</li> </ol>  |
| <b>October</b>   | <ol style="list-style-type: none"> <li>1. The Government sends the proposed Social Security Financing Act to the National Assembly before 15 October. The law has simultaneously the role of a supplementary budget law for the current year, the final budget law of the previous year and the new budget law for the upcoming year.</li> <li>2. The Member States of the euro area send before 15 October “their proposed budget plan” for the following year to the European Commission; in the case of France this is the Economic, Social and Financial Report, attached to the budget law. If the Commission considers that the plan implies a serious risk flowing from non-compliance with the Recommendation of the EU Council it can ask for the submission of a new proposed budgetary plan.</li> </ol> |
| <b>November</b>  | <ol style="list-style-type: none"> <li>1. The European Commission gives its opinion on the compliance of the proposed budget law with the recommendations of the EU Council.</li> <li>2. The Government submits a supplementary budget law for the current year to the National Assembly.</li> </ol>   |
| <b>December</b>  | <ol style="list-style-type: none"> <li>1. The State Budget Act and the annual law on social security financing for the following year, as well as the programming law in years when such a law is made, are approved by Parliament, promulgated by the President of the Republic and published in the State Journal in the last days of the month.</li> <li>2. The supplementary budget law of the current year is approved and promulgated nearly at the same time.</li> </ol>  |

## 5.2. Budget execution

Budget execution starts on 1 January and follows a process that constantly involves actors from both line ministries and the Directorate of the Budget. It is characterised by both considerable autonomy granted to line ministries on spending decisions (i.e. nature of spending) and tight controls on compliance with spending limits (i.e. level of spending).

The LOLF outlines the “core function” of programme managers in an orderly and efficient budget execution. Their task is defined as policy development and execution according to performance objectives, for which they are granted very substantial autonomy in determining the use of spending authorisations granted at the level of their programme. The only legal limitation to their discretionary decision making is a ceiling on wages.

Within each line ministry, a chief financial officer (“*directeur des affaires financières*”, DAF) provides advice, expertise and assistance to programme managers. Their core role is to guide the budget preparation and execution but they may also define a framework for the ministerial management doctrines and decisions on the use of resources (e.g. purchasing policy and real property policy). They steer the cost analyses within the ministries, co-ordinate and consolidate the programme managers financial and performance reports at year-end.

Budgetary Controller and Ministerial Accounting Officers (“*Contrôleur budgétaire et comptable ministériel*”, or CBCM) are officials representing the Ministry of Finance located in line ministries or State operators. CBCMs combine budgetary and accounting functions - that is the assessing the sustainability of line ministries’ financial operations (budgetary control) and ensuring compliance of expenditure with all applicable rules (the traditional accounting officer role), in accordance to principles of the so called expenditure chain (“*chaîne de la dépense*”) as described in section 5.4.

Tight controls are exercised by the Directorate of the Budget for monitoring budget execution and ensuring that programme managers do not exceed spending limits.

At the beginning of the year, CBCMs review the partition of appropriations and employment within each programme and appraise recruitment plans prepared by line ministries and State operators, and through the year, when line ministries’ annual or multi-annual commitments, such as investment projects, are vetted by the CBCM.

In practice, this means that contracts entered in to by line ministries are to be approved by the CBCM prior to being recorded against commitments authorisations (AEs) voted in the State Budget Act. For AEs that are running over several years, cash outlays (CPs) are recorded in budgetary accounts over future budget years. Budgetary accounts maintained by the CBCM show therefore at any point in time 1) AE approved in budget law; 2) AE consumed through legal commitments; 3) AE unused/available for new commitments; 4) CP authorised in budget law; and 5) payments made or CP consumed.

Through the course of the year, regular controls are done by the CBCMs. The Directorate for the Budget also puts up three execution forecasts (in March, June and October), in close consultation with the line ministries. A summary of each forecasting exercise is presented to the Minister of the Budget, accompanied if required by the list of corrective measures for insuring compliance with expenditure rules.

The last execution forecast (of October) is coupled to the elaboration of an advance decree for the end of execution and a Supplementary State Budget Act (“*Loi de finances rectificative*”), which transfers and cancels appropriations as needed for compliance with expenditure rules. For that purpose the last forecast is preceded by a round of negotiations

with the line ministries in September (“*conférences de fin de gestion*”), which may lead to arbitrations by the Prime Minister.

Lastly, in the month of December the Directorate for the Budget puts up a daily monitoring survey in order to ensure the compliance with the expenditure rule at the end of the year.

### 5.3. Flexibility measures

Under certain circumstances and within given thresholds, a number of flexibility measures (“*mesures de régulation*”) are authorised by the LOLF thorough budget execution. They include reallocations between appropriations, cancellation of appropriations, supplementary appropriations, as well as increases or decreases of precautionary reserves. All flexibility measures must be notified to Parliament, either at budget approval stage or thorough the year. Net supplementary appropriations, or reallocations beyond those thresholds, can only be provided by a supplementary budget.

According to the LOLF reallocations between appropriations can take two forms: remittances (“*virements*”) and transfers (“*transferts*”). Remittances modify the partition of appropriations within a ministry and are allowed within the limit of 2% of the appropriations authorised for a programme in the initial budget law. Transfers modify the partition of appropriations between ministries and are allowed under the condition that the appropriations remain reserved for activities of the same nature (for instance appropriations for the purpose of road safety can be transferred from one ministry to another). Remittances and transfers are implemented by decree and the relevant committees of Parliament must be informed in advance of issuing the decree.

Cancellation of appropriations is possible in order to prevent deterioration of the budget balance as defined by the latest Budget Act. This requires a decree as well. The relevant committees of Parliament must be informed before the annulation decree is issued.

In case of emergency, the Council of Ministers can also reallocate appropriations between programmes. Such reallocations are capped to 1% of the total amount of appropriations. The emergency situation must be explained and communicated to relevant parliamentary committees, which are required to provide an opinion on the reallocation. This requires an advance decree (“*décret d’avance*”).

Reallocations and cancellation of appropriations must be regularised in the first upcoming supplementary State Budget Act and the Court of Accounts must express its opinion on these measures.

Lastly, the LOLF provides that appropriations can be set in a “precautionary reserve”, which is not a separate contingency reserve but a “freezing” of appropriations allocated to programmes. The rate at which appropriations are set in precautionary reserve is communicated to Parliament with the State Budget Act. Appropriations can be made available during budget execution by a decision of the Minister for Budget.

Freezing of appropriations is not exceptional in OECD countries. However, levels of the precautionary reserve sharply increased in recent years (see Figure 13).<sup>32</sup> This was due partly to the reluctance of previous Governments to include in the State Budget Act spending related to highly uncertain but not entirely uncommon events, such as recurring minor natural disasters or overseas military operations, which therefore had to be funded during budget execution.

This shifted part of discussions on spending priorities from the formulation to the execution phase of the budget process and also significantly constrained the capacity of programme



managers to exercise real autonomy in budget execution, as they could not use, in practice, the full budget allocated to their activities.<sup>33</sup>

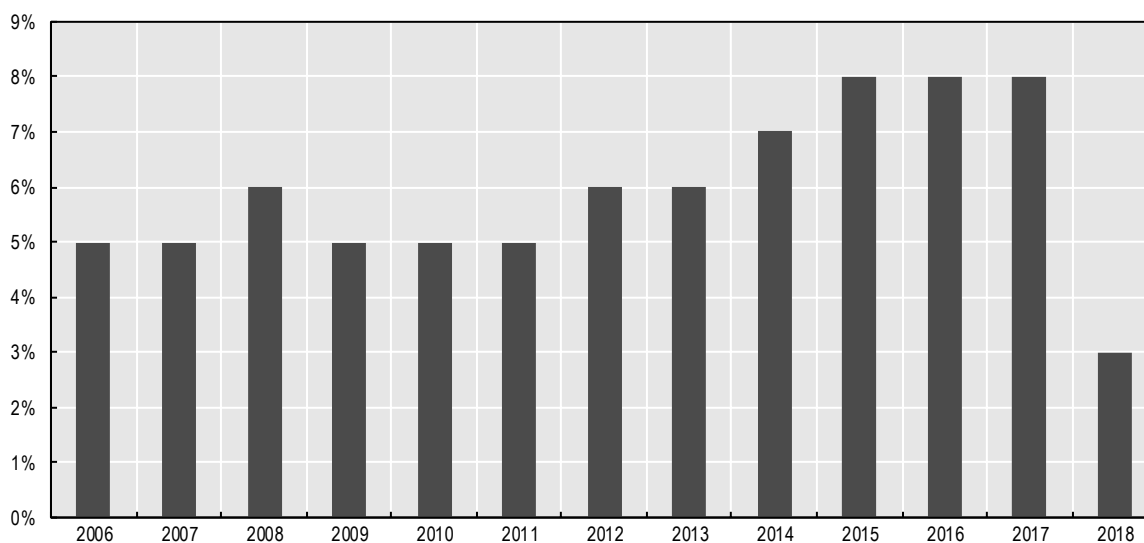
In 2017, with the support of the new Government, the Directorate of the Budget, aware of these high administrative costs, asked line ministries to prepare more conservative budgets and reduced accordingly the level of the precautionary reserve to 3% in the 2018 State Budget Act. The underlying rationale for this new approach was that the precautionary reserve should be used as an operational control during the year, as intended initially, rather than a *de facto* contingency reserve.

In 2018, line ministries will therefore have certainty on the level of their resources, hence better exercise their autonomy on spending decisions, but their budgets are expected to be drawn in a way that allows addressing spending pressures - in other words, individual line ministries, and ministers, shall not consider frozen appropriations as a way out of expenditure prioritisation decisions.

Going forward, one option to further minimise potential disruptions of line ministries spending plans while keeping room for manoeuvre in case of emergencies, would be to replace the precautionary reserve by a contingency reserve) - that is an allowance in the budget that is completely distinct from resources allocated to programmes. Another advantage of this mechanism is that it would generate greater transparency on claims for additional funding.

**Figure 13. France: Precautionary reserve level**

% of total expenditure (excluding staff expenses)



Source: Directorate for the Budget.

#### 5.4. Expenditure Control

In France, expenses are controlled according in an orderly process, the so called expenditure chain, which strictly separates the roles of authorising officers (“*ordonnateurs*”) on the one hand, and accounting officers (“*comptables*”), on the other hand. The former is the minister or his representative, and the latter is always an official of

the Ministry of Finance. Traditionally, roles of the ordering and accounting officers were distributed as follows:

- Ordering officers were tasked with in 1) entering in to contracts as needed to accomplish their stated mission and objectives; 2) establishing that the service is provided, that is to say that the creditor has complied with the contract and the performances prescribed by the contract have been delivered (verification stage); and 3) ordering the CBCM to pay the corresponding amount (ordering stage);
- Accounting officers were tasked with 1) verifying availability of appropriations prior to any legal commitment done by line ministries; 2) realising compliance controls prior to payment; and 3) realising the payment as such.

Over the course of time, the expenditure chain and roles of authorising officers and accounting officers have been maintained. However, tasks performed have evolved in practice, due to the modernisation of IT systems and business processes, with for example, the ordering of certain payments (such as the salaries and pensions of public employees) not formalised as such, but rather validated by the ordering officials after payment orders have been automatically generated and transmitted to the accounting officer by an ICT system.

As risk management has been very significantly strengthened over recent years (through internal control, internal audit and external audit) and the State IT system, the so-called Chorus, manages all financial operations in a secured workflow, there have been calls in recent years for further simplifying budgetary and accounting controls.<sup>34</sup>

The recent adoption of the GBCP helped in achieving this objective, as it allows expenditure control to be done in shared service centres and adjusted based on assessment of the internal control environment in each ministry and operator. Notwithstanding this innovation, as the Ministry of Finance tries to foster greater fiscal responsibility in line ministry, there could be a case for further simplifying budgetary and accounting controls for these line ministries and operators that have a good record on compliance with ceilings set in their budget and other legal requirements (principle of “earned autonomy”).

### 5.5. Cash and debt management

Efficient cash management is a cornerstone of orderly budget execution in France. The Ministry of Finance maintains a treasury single account (TSA) at the French central bank (“*Banque de France*”) to prevent the build-up of dormant cash, reduce the overall debt of general government, and impact positively the yields France obtains in the market. The TSA is also believed to offer greater security to public entities for their deposits. The scope of the French TSA is particularly wide, as it covers balances of the State, its agencies and local government.

An independent agency, the Agency of the French Treasury (“*Agence France Trésor*”, or AFT) was created in 2001 for performing cash management of the State “so that it can meet its financial commitments at all times, whatever the circumstances” and managing debt “in the taxpayers’ best interest”. This agency operates under the auspices of the Directorate General of the Treasury; works in close co-operation with the Directorate for the Budget and the Directorate General of Public Finances; and reports to the Minister of Finance.

AFT is assisted in the management of government debt by a Strategic Committee, which meets twice a year to provide advice on debt and cash management procedures and policies. The Strategic Committee’s members have a broad spectrum of skills and expertise. One of

the Strategic Committee's key roles is to give its own interpretation of the principles governing the government's issuing policy and cash management procedures.

In its cash management role, AFT is tasked with the day-to-day management of the TSA. To ensure that financial resources are available to meet needs of public entities, AFT monitors a complex and very effective system of profiling cash disbursements, communicated almost on a daily basis by the large network of public accountants of the Directorate General of Public Finances. Profiling of cash disbursements is prepared for the whole year and regularly updated. In addition, AFT monitors expenditures and receipts throughout the day in real time. The AFT also invests (and if necessary borrows) surplus funds in the money markets, with a view to maintaining a low and stable end of day balance in the TSA and ensuring the best return on the investment of surplus cash.

Debt issuance is done according to a public strategy, grounded on several principles rigorously applied by the AFT, among which doing regular, transparent and predictable issuance; promoting innovative management; and developing the most liquid and deepest possible French debt market. Principles do not however include the control of fiscal risk unlike other OECD countries. One notable recent innovation is the issuance of the first French sovereign green bond, "the Green OAT", which marked France's willingness to be a driving force for the implementation of the goals of the December 2015 Paris Climate Agreement.<sup>35</sup>

### 5.6. Summary assessment

With regards to the formulation of the annual budget, the move to top-down budgeting, a necessary complement to medium-term planning, is clear in France. For the State, in particular, the bilateral process between line ministries and the Directorate of the Budget (with arbitrations of the Prime Minister) is strongly influenced by the ceilings set in the State triennial budget (and the Laws on the Programming of Public Finances indeed) and related expenditure rules.

In addition, the practice, introduced in 2017, of conveying a governmental seminar at the outset of the annual budget formulation should have further positive effects on strengthening top-down budgeting, as it should help gaining wider political appreciation of medium-term targets and related budgetary constraints and realities.

In the area of budget execution, although public managers' autonomy is a cornerstone of the LOLF, controls exercised by the Ministry of Finance have remained strong. In particular, over the last years, freezing of appropriations in a precautionary reserve and in-year reallocations of resources were used by the Directorate of the Budget as the principal means of ensuring compliance with expenditure rules in the context of recurring emergencies and budgetary pressures.

The rate of the freezing of appropriations was significantly decreased in 2017 in order to give line ministries greater certainty on the level of their resources and better exercise their autonomy on spending decisions. Accordingly, their budgets have been drawn in a way that allows addressing spending pressures. Going forward, one option to consider for minimising potential disruptions of spending plans while keeping room for manoeuvre in case of emergencies, would be to establish an allowance in the budget that is completely distinct from resources allocated to programmes.

Expenditure control is done through the so called expenditure chain, which strictly separates the roles of authorising officers ("*ordonnateurs*") on the one hand, and accounting officers ("*comptables*") on the other. High-quality cash management also

underpins orderly budget execution. Cash balances of line ministries, public agencies and local government are fully centralised, with profiling of upcoming disbursements provided on a daily basis by the very large network of public accountants, who also control and process all payment orders.

## 6. Transparency in budgeting

### 6.1. Budget documentation

Consistent with the LOLF's transparency objectives, the State Budget Act provides a wealth of financial, performance and background information for Parliament's budgetary discussions. The outline and content of the State Budget Act is strictly provisioned by the *LOLF*. It consists of three "parts": the General Budget ("*Budget général*"), the special accounts and Appendices ("*Annexes*").

The General Budget presents all State expenditures and revenues, except for revenue earmarked for in special accounts. It also includes a series of legal provisions relating to taxes, changes in entitlement programmes, or general provisions for exerting fiscal discipline over public agencies.<sup>36</sup>

Performance Plans ("*Projets annuels de performance*", or PAP) detail appropriations according to the LOLF nomenclature (missions, programmes and actions, see Box 7). Within each mission, programme and action, appropriations are further detailed by nature. Performance Plans also provide a rationale for all expenditure ("*Justification au premier euro*") as well as a cost analysis for each programme. Furthermore, performance targets and indicators are assigned to all proposed appropriations both at mission and programme levels, as explained in more detail in the following section.

Lastly, Appendices to the budget include:

- The Economic, social and fiscal report ("*Rapport économique, social et financier*"), provides economic and fiscal forecasts (including assumptions and methodologies), analyses trends for central Government revenue and spending, and explains financial flows between public entities. It is the draft budget plan submitted to the European Commission;
- Orange Books and Yellow Books ("*Oranges budgétaires*" and "*Jaunes budgétaires*"), which provide specific information to inform the Parliamentary debates. For example, they analyse in detail levels of appropriations in favour of specific beneficiaries (such as transfers to public agencies), aggregate appropriations allocated to different ministries for implementing shared public policies (for example, fight against drug traffic or promotion of tourism), and present the results of spending reviews undertaken by the Directorate for the Budget ;
- The *ex ante* assessment of new measures ("*Evaluation préalable des articles de la loi de finances*"), which is a detailed presentation and assessment of new revenue and spending measures, including their medium-term financial impact;
- The Ways and Means report ("*Voies et Moyens*"), which outlines revenue sources, in particular taxes, and describes and evaluates tax expenditures ("*niches fiscales*") in its Volume II, by type of tax, by mission/programme and by type of beneficiary.

In addition to core budget documents, the Ministry of Finance publishes an extensive set of fiscal information, among which national accounts for the general government, an annual

report on SOEs prepared by the APE, an annual report on debt and cash management prepared by the AFT.

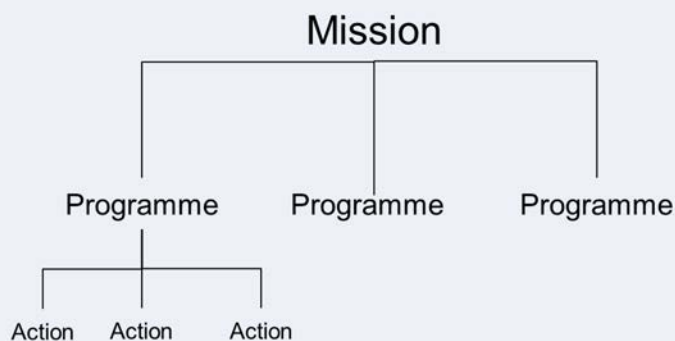
Although the quality and completeness of the budget documentation is recognised by most actors, the Directorate for the Budget have been increasingly concerned in recent years that the volume of the State Budget Act was limiting its usefulness and clarity for Parliament and the general public. A number of initiatives have already tried addressing these issues. The 2012 Organic Governance Law merged three reports in to one (the Economic and fiscal report). The Performance Plans and Performance Reports have been simplified, by the reduction of two-thirds the length of policies' cost analysis. The length of budget documents has decreased in total of around 20% during the last decade. However, it still amounts to more than 11 000 pages a year.

The Ministry of Finance also offers regular opportunities for parliamentarians and citizens to provide their feedback on the budget documents. The Directorate for Budgets undertakes each year a formal survey of parliamentarians' satisfaction with budget documents, and collects suggestions for improving documents and reporting practices. The 2016 survey shows that the bulk of parliamentarians (87%) are satisfied with the completeness, quality and transparency of the information provided. Public Finances Committees in the National Assembly and Senate also provide regular informal feedback on the merits and limits of fiscal reports.

In 2017, the Directorate for the Budget also launched an online survey for all citizens and other users to provide feedback and suggestions on budget documents and the Performance Forum website.

#### Box 7. France: State budget nomenclature after the LOLF

Before the LOLF, the State Budget was broken down by ministry and by “chapters”, which were considered to give limited insight on the aim of budget appropriations and the cost of administrative policies and structures. Moving away from the traditional budget presentation, the LOLF requires the State Budget to be built on a three-tier structure that is by missions, programmes and actions.



**Missions** correspond to the main government policies. A mission, in almost all cases, is the responsibility of a single ministry, but a limited number of missions are “multi-ministry,” pulling together all the programmes, such as research, conducted by different ministries that relate to the same general policy. Parliament votes the budget by mission. Budget generally comprises around 30 missions, to which around 100 objectives and

indicators are associated with. For each mission, a Performance Plan (“*Projets annuels de performance*”, or PAP) and Performance Report (“*Rapports annuels de performance*”, or RAP) is prepared each year.

Missions are broken down into **programmes**, which constitute operational means by which public policies will be implemented. A programme is always the responsibility of a single ministry. Parliament may alter the distribution of expenditure among the programmes within a given mission. Each programme has its own specific objectives and performance targets. Budget generally comprises around 120 programmes, to which 400 objectives and 800 indicators are associated with.

Programmes are broken down into actions, which correspond to resources allocated to units that will deliver public policies.

Within this three-tier structure, appropriations are further detailed into “titles”, reflecting the economic nature of the expenditures. There are seven titles: “Title I”: attributions to the public powers (President of the Republic, Parliament, etc.); “Title II”: personnel expenditures; “Title III”: other operational expenditures; “Title IV”: charges of public debt; “Title V”: investments; “Title VI”: expenditures of intervention (subsidies, social benefits, etc.); and Title “VII”: expenditures associated with financial operations (loans, advances, capital transfers).

*Source:* Directorate of the Budget and Authors.

## 6.2. Performance objectives and indicators

As outlined in Section 2, assessment of public policies’ results was one of the core objectives of the LOLF, which defined for that purpose three categories of performance objectives and indicators associated with missions and programmes: effectiveness (in socio-economic terms) for beneficiaries; quality of services for users; and efficiency in the sense of optimisation of resources for taxpayers.

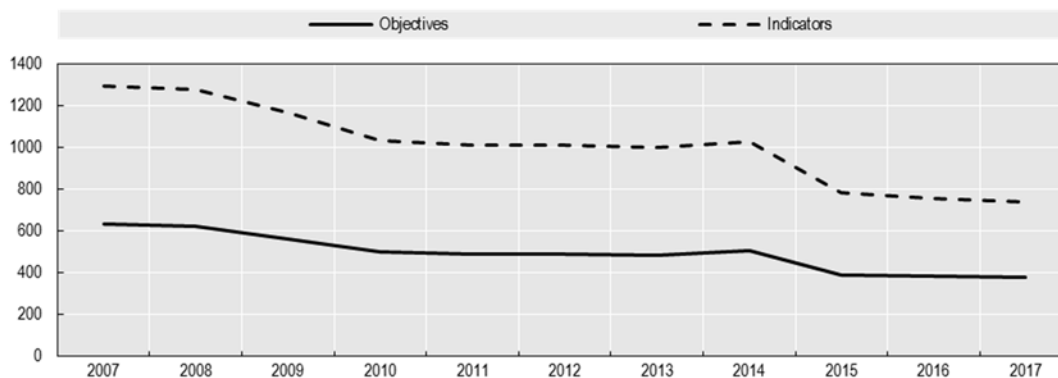
In keeping up with the policy and performance orientation of the budget documentation introduced by the LOLF, since 2006, performance objectives and indicators are assigned to all proposed appropriations both at mission and programme levels in annual Performance Plans and Performance Reports. Performance objectives and indicators fall under the responsibility each ministry or operator, which are responsible of their legibility and quality.

Overall responsibility for the performance framework however lies with the Directorate of the Budget, which has been promoting the “performance culture” both within and outside the administration and constantly sought to improve performance information over the last decade. To that purpose, the Directorate of the Budget directly engages with line ministries’ Chief Financial Officers, organises trainings, establishes guidance, realises quality reviews, etc. Even though results are missing at year-end for between 10 to 15% of indicators, quality of the information has increased over time, due to efforts of the administration and also annual reviews realised by the Court of Accounts.

Like in other OECD countries with the most experience with performance budgeting, instructions have been provided to line ministries for a number of objectives and indicators in response to both the information overload for parliamentarians and administrative burden of reporting for public managers. Between 2007 and 2017, the number of performance indicators has steadily decreased from 1 173 to 765, giving priority to those

that most closely reflect public policies' strategic objectives and were most useful for management purpose.

**Figure 14. France: Number of Performance Objectives and Indicators**



Source: Directorate of the Budget.

There is broad agreement within and outside the administration that performance information is useful and even necessary, but questions remain on whether performance assessment shall be aimed primarily at policy appraisal or managerial decision-making. There is also clear disappointment in the limited use of performance information in the budget formulation process and scrutiny of results at year-end. All these questions are not unique to France. Several improvements are considered at the moment, such as systematically gathering parliamentarians' inputs on types of mission-level indicators that should be used in budget documentation; and adopting programme-levels indicators that are useful for routine management. In other words, the objective would be that ministers feel responsible and accountable for the achievement of their mission's objective towards Parliament (strategic objectives) and that programme managers feel responsible and accountable for the achievement of their programme's objectives towards the minister (management objectives). Such an approach would be aligned with best practices in other OECD countries.<sup>37</sup> With regards to defining strategic objectives, it is to be noted that, recently, a committee chaired by the Prime Minister pledged to further align performance indicators with Sustainable Development goals.

Successive governments have also been concerned with further highlighting broader and transversal strategic goals of social and environmental policy in France. To this purpose, since 2015, the Prime Minister's office presents annually a report ("*Nouveaux indicateurs de richesse*") on France's performance against 10 wealth and well-being indicators. These indicators include Economic development indicators such as FDI (OECD) and Doing Business (World Bank); Social progress indicators, such as healthy life expectancy at 65 by gender (OECD), percentage of 18-24 year olds with no qualification who are not in training (France Stratégie/Eurostat) and poverty gaps (World Bank); and Sustainable development indicators such as greenhouse gas emissions per unit of GDP (European Energy Agency/Eurostat). The Directorate for the Budget is now exploring innovative ways to present in the budget documentation resources and outcomes related to the Government strategic policies and agenda, and will be piloting gender budgeting in 2018.

### 6.3. In-year and year-end reporting

In year, the Public Accounting Directorate is required by legislation to publish budget outturns monthly (“*Situation mensuelle de l’État*”, or SME). These documents report and comment on the central Government’s cash movements; financial commitments; cash position, and debt level. Spending outturns are presented similarly to the budget (i.e., by public policy, programme, heading and category).<sup>38</sup> One month after the closing of the fiscal year, the Annual Budget Outturn (“*Situation budgétaire et financière de l’État*”, or SBFE) is presented to Parliament by the Public Accounting Directorate. It shows annual budget outturns, and explains variations between the preliminary estimations of the fiscal balance established after the closing of the fiscal year, and the final figures.

The main accountability document at year-end is the Budget Execution Act (“*Loi de règlement*”, or LR), which is presented to the Parliament in May. It shows final cash and commitment outturns by mission and programme against Parliamentary authorisation, the cash basis deficit or surplus, and accrual basis profit or loss. In addition, Performance Report (“*Rapports annuels de performance*”, or RAP) (see Box 7) provide more detailed financial and performance information. Lastly, the Annual Reports of Principal Budget and Accounting Officers (“*Rapport annuel du contrôleur budgétaire et financier*”) identify and discuss fiscal and financial risks at ministries level. These reports are communicated to Ministers, Parliament, and the Court of Account, but are not available to the general public.

Since 2006, audited financial statements (“*Compte Général de l’État*”, or CGE) are presented to Parliament as an appendix to the Budget Execution Act. All State assets, liabilities, expenses, revenues, and contingent liabilities are reported or disclosed in these financial statements. Civil service pensions are disclosed in a note to the financial statements. Accounting standards are established by an independent standard setting authority (“*Conseil de normalisation des comptes publics*”, or CNoCP) and endorsed by the MoF. The primary reference for elaborating them is French private sector accounting standards, but they are generally consistent with international accounting standards.

Financial statements provide a wealth of information, but, so far, have been seen mostly as a “complement” to budgetary accounts, which remain the focus of Parliamentary attention. Consequently, one core objective for the Directorate for Public Accounting over recent years has been to provide accrual basis information that can better inform Parliamentary discussions on next year’s budget and cash basis deficit target, and therefore strengthen budgetary decision making.

In particular, the management commentary sent to parliamentarians alongside the State financial statements includes a detailed bridge table reconciling and explaining differences between the cash basis and accrual basis deficits reported in the Budget Execution Act. The bridge table identifies financial operations that are not reported in the cash basis deficit because they did not involve an immediate exchange of cash (for example pending transfers to public corporations or liabilities related to tax expenditure), or are reported with different presentations (for example, investment is reported as capital expenditure in the budget and as an asset in financial statements).

Considerable efforts are also invested into making accrual information useful in its own right and not only as a complement to budgetary accounts. In particular, the Directorate for Public Accounting has worked on making accrual data understandable to a variety of non-technician reader, by publishing “Citizens’ financial statements” - that is a four-page summary of the financial statements, which presents the key aggregates with infographics. In addition, a so-called Memento will be published from 2018, which will present data sets



covering over ten years and comment and analyse trends in assets, liabilities, revenue and expenditures reported in the financial statements.

One area in which the Public Accounting Directorate is also looking into at the moment is cost accounting. A number of pilots have been recently launched for testing how this could allow realising benchmarking of some Government units delivering back office services.

Recent stock-taking exercises (e.g. Court of Accounts, 2016) outline other improvements brought by accrual accounting. The introduction of accrual accounting made an essential contribution to the modernisation of the Government finance function and improvements to its processes. In short, public accountants' tasks shifted from compliance controls at the payment stage to financial controls covering significant financial risks and operations of Government. Exhaustive inventories of their assets and liabilities have allowed, for example, rationalising the State's real estate portfolio and reassessing the value of certain concession contracts. Maybe more importantly, accrual accounting brought under greater scrutiny from both the Court of Accounts and Parliaments a number of financial operations that budgetary accounting fails to disclose, such variations from one year to another of payables, increases in tax litigations or nature and scale of State's contingent liabilities.

#### 6.4. *Accessibility and clarity of fiscal reports*

The Ministry of Finance has remained committed to a remarkable extent during the last decade to the spirit of the LOLF, which was to provide better, more legible information to Parliament and, more generally, to increase openness of Government on all fiscal matters. One notable outcome of this commitment to openness is the Performance Forum website.<sup>39</sup> This website classifies and discloses all budget documents (legal framework, budget preparation, budget execution, performance information, etc.) on a single platform, with clear navigation and user-friendly brochures. Both fiscal reports and data underpinning charts and tables are available on line.

Aware that budget documents are likely to be dense, complex and hard for ordinary citizens, the Directorate for the Budget also developed sets of fiscal information that are relevant to the needs and interests of a range of audiences, from technicians to average citizens, and are available on the Performance Forum website. For example, some documents explain the budget framework to a younger audience.

Two years ago, the Directorate for the Budget also started publishing Performance Fact-Sheets ("*Données de la performance*") which include, for each mission within the budget, a two-page description of current funding levels and performance results, a comparison with funding and results of the last two years, and a narrative explaining how targets were met, or why they were missed. It also plans to develop a Citizen's Budget in the coming years.

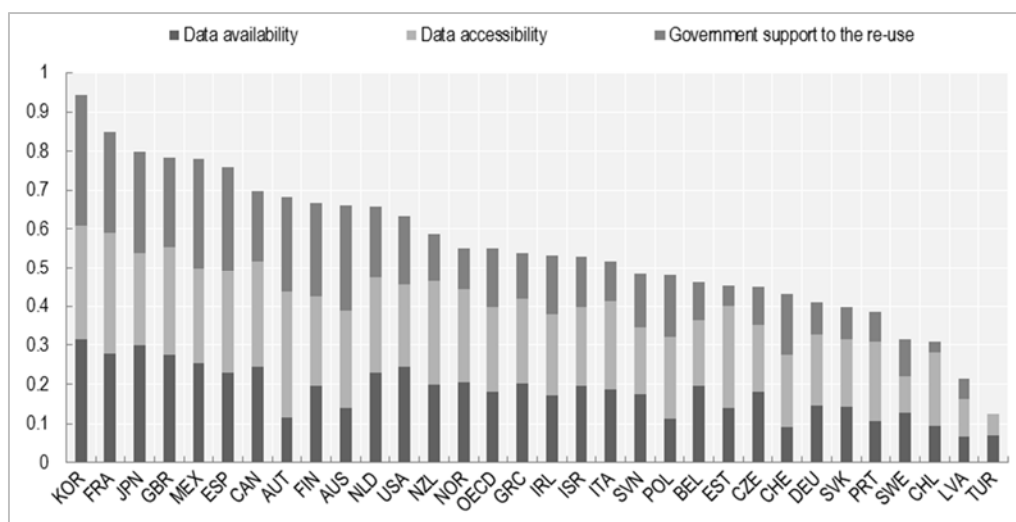
France is also involved in the Open Government Partnership, the international Open Government organisation oriented at the adoption of open and transparent processes in the public administrations. The Government launched an Open Government National Action Plan 2015 - 2017 detailing France's commitment to the promotion of transparent and collaborative public action and also maintain a website called [Data.Gouv.fr](http://Data.Gouv.fr) which hosts datasets produced by Government, corporations, citizens or non-profits.

Highlighting these efforts, France ranks among the top two countries on the OECD Open-Useful-Reusable Government Data Index (Figure 15). Only selected budget data is available on the Government's open database, though and the Ministry of Finance envisions launching a budget-specific open database.

In order to find ways to make open budget data available that serves civil society and is expressive enough for the general public to understand easily, the Ministry of Finance plans to organise a *Hackathon* in 2018, which would allow both technicians and civil society coming forward, assessing data and developing innovative ideas and tools.

**Figure 15. OECD countries: Open-Useful-Reusable Government Data Index**

Composite index from 0 lowest to 1 highest (OURdata), 2017



Source: OECD (2017b), Survey on Open Government Data; Data for Hungary, Iceland and Luxembourg are not available. Denmark does not have a Central/federal data portal and therefore are not displayed in the Index. Detailed methodology and underlying data available online in the annex online. Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>

## 6.5. Summary assessment

Overall, the transparency and openness of State budget and financial reporting is very high in France.

Throughout the whole of the budget cycle, the Ministry of Finance publishes an extensive set of financial information. Appendices to the State Budget Act present an extensive set of fiscal information, such as economic and fiscal forecasts, describe the cost of all new policy measures and provide detailed information on tax expenditures, including number of recipients and cost estimations.

Performance indicators and results attached to each of the programmes composing the State budget, which assess their effectiveness, quality of service or efficiency. Quality of performance information is notable: although the performance framework is currently in a state of flux, France is among the very few OECD countries whose performance data is submitted to an annual independent review by the Court of Accounts.

Accrual financial statements are prepared at year-end, which report all State assets and liabilities. Civil Service and contingent liabilities are disclosed and measured in dedicated notes. Accounting standards are established by an independent advisory body, which systematically considers international accounting frameworks for setting national standards.

In pursuing the LOLF's objective of transparency, the Ministry of Finance regularly consults a broad range of stakeholders, primarily parliamentarians, on possible improvements to existing budget documents. Considerable efforts are also invested into making fiscal information accessible to the general public, with, for example, short Performance Fact-Sheets published each year to discuss key performance indicators, using clear illustrations and user-friendly language.

Although the design of the performance and accrual frameworks has been revised and refined over the last ten years, they still lack political impact, a situation that is not unique to France. Questions are therefore being increasingly raised on how to maximise the added-value of this resource-consuming exercises, in particular their impact on policy formulation and quality of scrutiny.

Among other initiatives, working groups mixing officials with different backgrounds and coming from several ministries have been set up to propose options for future developments of the performance and accrual frameworks (e.g. nature of performance indicators, development of cost accounting).

## 7. Parliamentary involvement and external oversight in budgeting

### 7.1. Parliament approval and scrutiny

France has a bicameral legislature comprised of the National Assembly and the Senate. The 577 members of the National Assembly are elected for a five year term by a two-round run-off voting, in which the candidate who obtains an absolute majority in the first round (i.e. more than 50%) or a relative majority in the second round is elected. The 348 Members of the Senate are elected for a six-year term by an electoral college of approximately 150 000 members, comprised of the members of the National Assembly, municipal and regional councillors, and their delegates.<sup>40</sup>

The role of Parliament in the budget process is set out in broad terms in the Constitution and the LOLF and detailed in the Parliament's internal rules and procedures. The Parliament's two houses have both a role in budget approval, but it is the National Assembly that has prerogative in the legislative process, which is structured around three sets of documents, which are either discussed or formally approved (see Table 7):

1. The first set of documents (Stability Programme, Pre-Budget report and Law on the Programming of Public Finances) presented to Parliament provides the macro-economic background for budget discussions and medium-term perspective on public finances, effectively setting the stage for the annual budget discussion;
2. The second set of documents comprises of actual budgets proposals, the State Budget Act and Social Security Financing Law, which are approved by Parliament before the beginning of the fiscal year; and at least one Supplementary Budget Act;
3. The third set of documents reports on budget execution (Annual Budget Outturn and Budget Execution Act), both in terms of financial outturns and performance results, as described in more detail below. The Budget Execution Act must be approved before the next budget is discussed in Parliament.

In addition, Parliament is provided all year-round with monthly budget execution reports and information on reallocations and cancellations of appropriations, as prescribed by the LOLF.

The Stability programme is the first document presented to the Parliament in a budget year. The law prescribes this to be done at least two weeks prior to the submission to the

European Commission. The Parliament is not required by law to approve the Stability Programme but may do so if it wishes. For example, in 2018, the National Assembly approved the Stability Programme, while the Senate did not submit it to such a vote. In any case, the Parliament's debate represents a strong political endorsement of the Government strategy.

Although the Stability Programme is presented to Parliament in April, the legislative approval process begins in earnest in June each year, when the Government presents the Pre-Budget Report ("*Rapport préparatoire au débat d'orientation des finances publiques*", or DOFP). In line with the provisions of the Stability Programme<sup>41</sup>, this report announces to the Parliament the main changes to the Government's economic and fiscal policies, the expected path of the State's finances for the next fiscal year and allocates provisional resources envelopes for each mission.

This review is done in light of the conclusions of the Court of Accounts' Report on the Situation and Outlook for Public Finances ("*Rapport sur la Situation et les perspectives des Finances Publiques*"), which is presented alongside the Pre-Budget Report. It analyses fiscal statistics' key aggregates and identifies risks that may cause deviations from medium-term targets.

Lastly, in years when it is prepared, the Law on the Programming of Public Finances is submitted in September to the Parliament. It shows, among other things, the expected path for general Government's finances (deficit and debt) and the three-year State Triennial Budget.

The State Budget Act proposal is submitted to the Parliament by the first Tuesday of October. There are time limits set out in statute regarding debate in the National Assembly (40 days) and Senate (20 days), as well as an overall limit of 70 days from introduction of the proposed law to a final vote. This includes time for scrutiny by legislative committees.

The Constitution provides that if a final vote is not taken within 70 days, the Government may enact budgetary ordinances. At approximately the same time (15 October at the latest), the Social Security Financing Law is presented in Parliament. As for the State Budget Act, there are time limits set out in the Constitution regarding debates, albeit shorter ones (National Assembly: 20 days; Senate: 15 days; overall limit: 50 days).

State Supplementary Budget Acts are typically submitted to the Parliament at least once a year to modify the initial revenue and expenditure figures. The Constitution does not stipulate any specific time for scrutiny of State Supplementary Budget Acts, which has limited in the past, parliamentarians' scrutiny of significant transfers of resources between programmes and new tax provisions.

The Annual Budget Outturn ("*Situation budgétaire et financière de l'Etat*", or SBFE) is presented to Parliament by the Public Accounting Directorate in February of the following year. It shows annual budget outturns and explains variations between the preliminary estimations of the fiscal balance established after the closing of the fiscal year, and the final figures. It is presented by the Minister of Finance to the National Assembly and Senate's Finance Committee.

The main accountability document at year-end is however the Budget Execution Act ("*Loi de règlement*", or LR), presented to the Parliament before 1 June. The law shows final budget outturns by mission and programme against Parliamentary authorisation and the cash basis deficit or surplus. Audited accrual basis financial statements ("*Compte Général*

*de l'État*", or CGE) are presented in an appendix to the Law. They report on an accrual basis all financial operations undertaken by the central Government during the fiscal year.

Parliament is presented at the same time with the Court of Accounts' Budget Execution Audit Report ("*Rapport sur le Budget de l'État*") and an Audit report on the State financial statements ("*Rapport de certification du compte général de l'État*"). The Budget Execution Audit Report assesses budget execution and performance results, and is published along with 60 Budget execution audit notes ("*Notes d'exécution budgétaire*"), which provide detailed analyses on each public policy. The notes comment financial and non-financial outturns: auditors are indeed asked to comment on the performance achieved by each ministry over the year.

**Table 7. France: Main Budget documents presented to Parliament**

(Fiscal year: 1 January-31 December)

|   | Date      | General Gov. | State | Social Security | Presented (P)<br>Approved (A) |
|---|-----------|--------------|-------|-----------------|-------------------------------|
| Annual Budget Outturn   | February  |              | *     |                 | P                             |
| Stability Programme   | April     | *            |       |                 | P                             |
| Budget Execution Act  | May       |              | *     |                 | P+A                           |
| Budget Execution Audit Report and Audit report on the State financial statements <sup>1</sup> |           |              | *     |                 |                               |
| Pre-Budget Report   | June      | *            |       |                 | P                             |
| Report on the Situation and Outlook for Public Finances <sup>1</sup>                          | June      | *            |       |                 | P                             |
| Draft Law on the Programme of Public Finances (LPFP)  | September | *            |       |                 | P+A                           |
| Draft State Budget Act  | October   |              | *     |                 | P                             |
| Preliminary Social Security Fin. Act  | October   |              |       | *               | P                             |
| Final State Budget Act and LPFP   | December  |              | *     |                 | A                             |
| Final Social Security Financing Act   | December  |              |       | *               | A                             |

Note: <sup>1</sup> Reports prepared by the Court of Account and presented by the First President ("*Premier Président*").  
Source: Authors.

The Finance Committees in the National Assembly (73 members) and the Senate (49 members) take the lead in all budget-related matters. Procedures ("*Règlement*") of the National Assembly stipulate that Chairs ("*Président*") are from the opposition party, while General Rapporteurs ("*Rapporteur Général*") are from the majority party. The Senate has traditionally followed similar practices. The National Assembly and Senate Finance Committees' work is supported by a staff of respectively around 25 and 15 administrators ("*Administrateurs*"), who are generally specialists in administrative law.

Detailed modalities for the scrutiny of the budget proposal in each house differ, with the National Assembly having prerogative in the budget process. They however follow some similar broad stages. In particular, revenue provisions of the budget proposal are to be approved before Parliament starts discussing expenditures.

In both houses, the Finance Committee General Rapporteur has a central role. Their initial task consists of examining the budget proposal to ensure that it complies with all legal requirements. They may also propose amendments on budget proposal provisions (e.g. removal of a new tax proposal). Based on their review, the General Rapporteur formulates

recommendations to the vote of the Finance Committee.<sup>42</sup> After the Finance Committee's discussion and vote, the report summarising its position on the budget proposal and listing its proposed amendments is published.

Parliamentary discussion and approval of the budget proposal is then done in three sequences, the first one on new tax provisions that will take effect during the budget year; the second one on fiscal aggregates (total revenue, total expenses, fiscal balance and debt); and the third one on resource allocation to each mission and programme. The Government may also propose new tax provisions that will take effect after the budget year, which are discussed as part of the third sequence. All legal provisions are accompanied by a detailed presentation and assessment, including their medium-term financial impact.

In the National Assembly, revenue provisions are discussed during a one-week plenary session. Expenditures allocated to missions and programmes are submitted to more extensive scrutiny, comprising reviews by:

- 25 Bilateral Committees (*“Commissions élargies”*) mixing sectoral and finance committee's members. Committees can conduct hearings of ministers and senior staff from ministries; and
- A Special Rapporteur (*“Rapporteur Spécial”*) nominated by the Finance Committees and Sectoral Rapporteurs (*“Rapporteur pour Avis”*) nominated by the Sectoral Committees of Parliament.<sup>43</sup> Special Rapporteurs are granted by legislation unlimited access to all data and reports on budget-related matters. Special Rapporteurs also have authority to send questionnaires to ministries, which ministries are legally bound to answer within a mandatory timeframe.

Following hearings and review exercises by Rapporteurs, Bilateral Committees vote on appropriations for each mission and other related legal provisions, as well as on amendment proposals. The Parliament then votes expenditures as a whole and other legal provisions in a plenary session, during which amendments, even those that have not been pre-approved by Finance or Bilateral Committees, can still be proposed by parliamentarians.

The National assembly and Senate Social Affairs Committees (*“Commission des affaires sociales”*) in the National Assembly and Senate take the lead in the review of the Social Security Financing Law proposal, but they seek advice from their respective Finance Committees. The social security legislation approval is shorter and involves fewer actors. In September, the Social Affairs and Finance Committees traditionally conduct a hearing of the Court of Accounts, which presents the findings of its review of the previous year on implementation and the annual audit of social security accounts, followed by a hearing of Ministers of Finance and Social Affairs. The Social Affairs Committees then nominate six rapporteurs to review specific parts of the proposal, who summarise their conclusions in a report to the plenary. The plenary session, which leads to the approval of the Social Security Financing Law proposal, usually lasts around five days.

Budgetary power of Parliament is “rationalised” under the Constitution. Pursuant to Article 40 of the Constitution and Article 47 of the LOLF, the legislature is indeed prohibited from changing the overall fiscal balance in the Government's proposed budget (by creating new “missions”). Within these boundaries, the Parliament has some freedom to amend proposed revenue and expenditure, by increasing or decreasing taxes' rates or shifting the amounts allocated among programmes within the same mission.<sup>44</sup> Comparable, if not entirely similar, limitations exist for the Social Security Financing Law.

Despite the rationalisation of budgetary powers of Parliament and the vetting system detailed in the Parliament's internal rules and procedures, there are on average around 100

hours of discussion in plenary session, and between 1 500 to 2 200 amendments debated each year in the National Assembly (see Table 8), as individual parliamentarians or opposition parties seek to demonstrate their commitment to policies considered crucial for their constituencies or parties. The bulk of amendments is related to new tax provisions contained in the budget proposal.

Figures are similarly impressive for the Social Security Financing Law, for which 868 amendments were proposed and discussed in 2017. However, very few amendments are politically viable. In fact, changes to revenue and expenditures levels in the Budget Act proposal amount to EUR 2.8bn in 2017, after 94 hours of discussion in plenary session and 2 180 amendments.

**Table 8. France: Duration of Debates and Number of Proposed Amendments**

|      | First Section |                  | Second Section |                  | Other |                  |
|------|---------------|------------------|----------------|------------------|-------|------------------|
|      | Hours         | N° of Amendments | Hours          | N° of Amendments | Hours | N° of Amendments |
| 2013 | 39            | 848              | 12.30          | 367              | 12.30 | 359              |
| 2014 | 50.30         | 1.134            | 17             | 388              | 17    | 473              |
| 2015 | 41            | 891              | 14.30          | 499              | 14.30 | 362              |
| 2016 | 40.30         | 832              | 19.30          | 431              | 19.30 | 294              |
| 2017 | 32.30         | 842              | 23             | 441              | 23    | 897              |

*Note:* the first section of the budget proposal includes all new tax provisions taking effect during the budget year; the second section includes expenditures and new tax provisions taking effect after the budget year (Y+2, Y+3, etc.).

*Source:* National Assembly Finance Committee.

Significant scrutiny is exercised in-year by Finance Committees. In particular, the Government is required to appraise the Presidents of the National Assembly and Senate Finance Committees of proposed reallocations, transfers, etc., as stipulated by the LOLF. In addition, in both houses, Finance Committees are tasked with controlling the budget execution; assessing the compliance of new legislation with fiscal targets and rules; and launching discretionary inquiries on all budget-related matters. These enquiries are undertaken either directly by the Finances Committee or by the Court of Accounts, at the Parliament's request, and their results are presented in Parliamentary reports. As part of the in-year scrutiny process, Finance Committees realise and publish budgetary control reports ("*Rapports de contrôle budgétaire*") and compel testimony from any witness deemed pertinent to their work. For example, in 2016, the Senate Finance Committee published more than 20 such reports and conducted 450 hours of hearings.

In both houses, the Finance Committee General Rapporteur leads year-end scrutiny. Similarly to the process of the budget proposal, they review the year-end legislation proposal to ensure that it complies with all legal requirements and formulates recommendations to the Finance Committee on whether the proposal shall be accepted or rejected.<sup>45</sup> The Finance Committees may also conduct hearings, which they do not do often in practice.<sup>46</sup> After the Finance Committee's discussion and vote, the report summarising its position on the budget proposal and listing its proposed amendments is published.

Special Rapporteurs also analyse results achieved on the missions they are in charge of. Similarities with the budget proposal process however ends here: discussion in plenary session on the Budget Execution Act proposal takes place in a matter of hours in the National Assembly, as well as the hearing of the First President on the Court of Accounts.



Overall, in France, the budget process in Parliament shows imbalances between times spent on budget approval versus fiscal policy and scrutiny of results. Such imbalance can be observed in other Parliamentary systems and many Parliaments across the OECD, faced with similar issues, have therefore looked into rebalancing their budgetary role. This has often been done by allocating tasks of budget approval and scrutiny to two distinct committees (as for example in Scotland) and by strengthening Parliament's analytical and research resources, in technical areas such as fiscal policy or performance analysis, by establishing a Parliamentary Budget Offices, or PBO (as for example in Canada, Austria or Ireland).

Although the number of staff assisting Finance Committees in the National Assembly and Senate is comparable with other OECD countries, both options could be considered in France, as consensus seems to grow that Parliament's budget process has a certain level of inefficiency in its current form.<sup>47</sup> Other options than a PBO could be considered, such a reconfiguration of existing institutions so that they are more directly at the disposal of Parliament or the recruitment of administrators with capacities in targeted areas, such as tax policy, performance analysis or economic modelling, or reconfiguration of an existing institution so that they are more directly at the disposal of Parliament (which cannot be the Court of Accounts given its specific institutional position).<sup>48</sup>

**Table 9. Selected OECD countries: Budget and Staffing in Parliamentary Budget Offices**

| Country   | Institution name                         | Year | Budget (EUR) | Staffing (full-time equivalent) |
|-----------|--|------|--------------|---------------------------------|
| Australia | Parliamentary Budget Office (PBO)        | 2014 | 43 million   | 38                              |
| Canada    | Parliamentary Budget Office (PBO)        | 2014 | 2 million    | 17                              |
| Greece    | Parliamentary Budget Office (PBO)        | 2017 | 0.5 million  | 16                              |
| Italy     | Parliamentary Budget Office (PBO)        | 2014 | 6 million    | 33                              |
| Korea     | National Assembly Budget Office (NABO)   | 2017 | 11 million   | 138                             |
| Mexico    | Center for Public Finance Studies (CEFP) | 2016 | 2 million    | 60                              |
| US        | Congressional Budget Office (CBO)        | 2016 | 38 million   | 235                             |

Source: OECD IFI Database (2017). National currency converted into US dollars as of December 2017.

To increase engagement of Parliament through the budget process, the role of Sectoral Committees could also be strengthened, in particular with regards to fiscal policy and performance aspects. This could be done, in particular, by codifying in Parliament's internal rules and procedures a role for Sectoral Committees (or to the 25 Bilateral Committees and Special Rapporteurs) in the review of the Pre-Budget Report and Budget Execution Act.

However, more generally, rebalancing the role of Parliament through the budget cycle would imply that more comprehensive information on fiscal policy and budgetary decisions be made available ahead of the budget proposal transmission to Parliament. Parliamentarians have, in particular, recently called for tax provisions and resources allocations disclosed in the Pre-Budget Reports to be more comprehensive and reliable, as



past experience has shown that they can change significantly up to the publication of the budget proposal.

## 7.2. *Audit and external oversight*

### 7.2.1. *Court of Accounts*

Relationships between Supreme Audit Institutions (SAI) and Parliaments vary widely among OECD countries, reflecting historic, cultural, political or other factors or influences. The SAI may be part of either the legislative branch or the executive branch, or independent of both. The Court of Accounts (“*Cour des comptes*”) is a judicial body, independent from both Government and Parliament and also a particularly high profile institution in France. Since a ruling by the Constitutional Court (“*Conseil Constitutionnel*”) in 2001, the Court’s independence as well as its institutional relationship with the executive and legislative branches has been protected by the Constitution (Article 47-2, dating from 2008). In addition, the position of First President of the Court (who serves a nine-year term) is usually filled by high-profile personalities. Members of the Court of Accounts are recruited amongst high-level public servants and appointed for an indefinite term, in order to protect their independence.

Such a model does not preclude the fact that the work done is, sometimes to a significant extent, directed to Parliament. The relationship between the Court of Accounts and Parliament has in fact become significantly stronger over time, in particular following the adoption of the LOLF and LOLFSS, which formally assigned an “assistance to Parliament” role to the Court of Accounts, with regards to the execution of the State Budget Law and Social Security Financing Law and turned the Court of Accounts into a “budget watchdog” (OECD, 2016).<sup>49</sup>

In this role, the Court of Accounts receives regular information from the Ministry for the Budget, among which public budget documents discussed above and non-public documents (detailed analysis of budget execution by programme). It also has access to central Government’s financial IT system, where budget execution data is available both at aggregated and detailed level.

The Court of Accounts prepares three reports through the annual budget cycle, as shown in Table 10, which are presented by the First President in plenary sessions. Regular hearings of Court of Accounts’ magistrates are done by Finance Committees in both houses. One notable aspect of the Court of Accounts’ work is that it annually conducts a review of ministries’ key performance indicators. The Court of Accounts has developed an audit approach, which specifies that auditors should assess 1) the indicators’ relevance; 2) their consistency over time; and 3) their usefulness (is the performance indicator used for improving the efficiency or effectiveness of a given public policy?). Auditors are also asked to comment on the performance achieved by each ministry over the year.

The Court of Accounts’ flagship publication (and means for conveying recommendations) remains however, the Annual Report of Court of Audit (“*Rapport public annuel*”), which receives significant attention from Government, Parliament and the general media. While this report is not dedicated specifically to the public finances, it includes key recommendations in this area. Due to regular follow-up of past recommendations on public finances and its prominent role in the oversight of public finances, the Court of Accounts plays an important and regular role in identifying areas for improvement in budgetary processes in France.

### 7.2.2. High Council on Public Finances

The High Council for Public Finances (“*Haut Conseil des Finances publiques*”, or HCFP) was created in 2012, as France sought to translate obligations set out in the European Treaty on Stability, Co-ordination and Governance in the Economic and Monetary Union into national law.<sup>50</sup>

France initially considered the establishment of an *ad hoc* institution, separate from the Government and the Parliament, as well as from the Court of Accounts whose focus would have therefore remained exclusively on *ex post* monitoring of public finances. Ultimately however, it was decided to set up the HCFP as an independent body strongly linked to the Court of Accounts. The HCFP and Court of Accounts have indeed the same Chairman and HCFP staff work part time for the Court. Placing the HCFP within the Court has arguably allowed it to benefit from the pre-existing independence of its host, and some measures have been put in place to enhance the HCFP’s independence, but this situation is unique to France as noted in a recent OECD case study (2016).<sup>51</sup>

The organic legislation makes several provisions in order to guarantee the independence of the HCFP. In particular, the 11 HCFP members are appointed by six different authorities, which include Chairs of the National Assembly and Senate Finance Committees, are traditionally from the opposition party. HCFP members are all “qualified individuals” and conduct hearings of regular officials and experts to support their work.

The overall mandate of the HCFP is to ensure the “consistency of the return trajectory to balanced public finances with France’s European commitments”. More specifically, the HCFP assesses all financial texts presented by the Government, and delivers opinions on: 1) the Government’s annual macroeconomic projections, 2) the consistency between annual central Government’s and social security’s annual Budgets Acts and targets set in the Public Finances Framework Law, and 3) *ex post* on “significant deviations” between the general Government structural balance and objectives set in the Public Finances Framework Law. These opinions are published all year-round (Table 10).

Deviations between the general Government structural balance and objectives set in the Public Finances Framework Law are considered significant when they are above 0.5% of GDP for one year or 0.25% on average for two successive years. A “significant deviation” generates a so-called corrective mechanism (“*mécanisme de correction*”), which means that the Government must adjust the structural balance in the following State Budget Act and Social Security Financing Act so that it is compliant with the target set in the Law on the Programming of Public Finances. The HCFP then delivers an opinion on the corrective mechanism proposed by the Government. This opinion is considered by the Constitutional Court, which verifies that the State Budget Act and Social Security Financing Act do not conflict with constitutionally established rules.

**Table 10. France: HCFP Public Opinions**

| Date                       | Title   | Content   |
|----------------------------|---|---|
| September (not every year) | Opinion of the Law on the Programming of Public Finances              | Review of the credibility of macroeconomic projections (LT and MT) and potential growth forecasts<br>Review of the consistency of the medium term fiscal objective with the Stability Programme                                       |
| September                  | Opinion on the State Budget Act and the Social Security Financing Act | Review of the credibility of macroeconomic projections (ST)<br>Review of the consistency of the medium term fiscal objective for the next year with the medium term fiscal objective in the Law on the Programming of Public Finances |
| April                      | Opinion of the Stability Programme                                    | Review of the credibility of macroeconomic projections (ST and MT)  |
| May                        | Opinion on compliance with the medium-term fiscal objective           | Identification of significant gaps between objective and actual for the general Government structural balance   |
| As needed                  | Opinion of Supplementary Budget Act                                   | Review of the credibility of macroeconomic projections (ST)<br>Review of the consistency of the medium term fiscal objective for the next year with the medium term fiscal objective in the Law on the Programming of Public Finances |

SourceS: LT : long term ; MT : medium term ; and ST : short term, HFFP's website ([www.hcfp.fr/Missions#Calendrier%20des interventions du HCFP](http://www.hcfp.fr/Missions#Calendrier%20des%20interventions%20du%20HCFP))

To fulfil this mandate, the HCFP is provided targeted information by the Ministry for the Budget. The fiscal council has only been operating since 2013 and both Government and HCFP members consider that there is still a learning curve. Quality and accessibility of information (see Section 3) and time lag for examining macroeconomic forecasts remain to be improved: in its most recent Activity Report, the HCFP underlines that “although the quality of the information transmitted to it by the Government has continuously improved since its creation, the time frames in which the High Council has to make decisions are highly constrained.”

### 7.3. Summary assessment

Overall, in France, the constrained amendment powers of the Parliament mean that the Government has primacy in budgetary matters. However, the long and active political debate taking place between Government and opposition parties as part of the budget approval highlights strong budgetary powers of Parliament. Each year, the Parliament tables a large number of amendments to tax legislation and adjustments to expenditure proposals, within legal bounds. The system of Rapporteurs and Special Rapporteurs shadowing particular line ministries also ensures a strong sectoral knowledge, which creates real scope to exercise influence and accountability on budgetary matters.

Notwithstanding this strength, it is notable that most Parliamentary budgetary debates focus on the State Budget Act proposal, hence taking place late in the budget formulation process. Therefore, although Finance Committees do scrutiny work throughout the year, plenary discussion of the Pre-Budget Report and Budget Execution Act is considered by many as too limited.

Calls for reform from both the Government and Parliament create a strong momentum for Parliamentarians to engage more effectively thorough the course of the budget cycle. Against this background, priority areas of reform to consider would include procedural changes to promote parliamentary engagement, such as a formal role for sectoral committees in the review of the Pre-Budget Report and Budget Execution Act; institutional

support for more effective Parliamentary engagement, such as the establishment of a PBO or a reconfiguration of existing institutions so that they are more directly at the disposal of Parliament; and enhanced information ahead of the transmission of the budget proposal, in particular with regards to the necessary content of the Pre-Budget Report for effective Parliamentary engagement.

France's fiscal council has only been operating since 2013. Although its creation already had visible impacts on the reliability of macro-economic forecasts, it can be said that both the Ministry of Finance and fiscal council are still on a learning curve. For example, quality and accessibility of information and time lag for examining macroeconomic forecasts remain to be improved.

## Notes

- <sup>1</sup> Since 1958, the Constitution went through five major amendments: in 1962 (election of the President of the Republic by direct universal suffrage); in 2000 (reduction of the presidential mandate from seven to five years); in 1992 (including modifications of title XV dedicated to the European Union); in 2003 (reform of local government); and in 2008 (modernisation of the Institutions of the 5th Republic)
- <sup>2</sup> Despite efforts pursued by successive Governments to simplify its multiple layers, local Government in France has at present 12 regional Governments; 96 departments; around 35 000 municipalities and 15 000 groupings of local Governments for delivering particular services, as well as a high number of local public agencies.
- <sup>3</sup> Government estimate in the 2018 Budget Act.
- <sup>4</sup> This was necessary in view of the expenditure trends appearing in the first half of 2017, including a recapitalisation of the AREVA Company (the main nuclear energy corporation of France) that was not foreseen in the budget of 2017.
- <sup>5</sup> Most of these expenditure rules are considered as “quantitative budgetary rules” under EU regulations - that is rules that set “quantitative targets in their area of application, their monitoring and the consequences of non-compliance” (the regulations also specify that if they contain exemptions clauses they must specify “the conditions for their applicability and strict procedures for the compliance with these conditions”).
- <sup>6</sup> The first one realised as early as 1968 (“*Rationalisation des choix budgétaires*”).
- <sup>7</sup> The Public Policy Programme 2022 is structured in three work streams. Firstly, five working groups focus on formulating reform proposals for the public sector in the following areas: simplification of administrative procedures, digital government, and human resource management, territorial organisation of Government and modernisation of financial management. Secondly, the Public Policy Programme Committee 2022 (“*Comité Action Publique 2022*”) is in charge of developing general proposals for reforms and savings. This committee consists of economists, qualified French or foreign personalities from civil society, senior officials and local representatives. A Public Policy Programme Youth Committee 2022 (“*Comité Jeune Action Publique 2022*”) has also been set up to gather separate proposals from students and young professionals. Thirdly, the Public Policy Forum (“*Forum de l'Action Publique*”) administered a survey on public services and gathered contributions from citizens and users on how to improve public service delivery.

- <sup>8</sup> When the LOLF was initially discussed, one of the reforms considered was the adoption of accrual budgeting. Specifically, it was envisioned that the budget would be prepared both on cash and accrual bases - that is showing both the cash-basis revenue and expenditure and accrual-basis “claims to be received and granted during the financial year”. This was included as a tentative provision in the initial version of the Constitutional Bylaw. When called upon to give its opinion, the Council of the State (“*Conseil d’État*”) was however critical of this proposal, which was seen as contrary to the annuality principle set in the Constitution. Following the opinion of the Council of the State, the Parliament rejected the proposal. Commitment authorisations were then considered as an alternative option for adding a medium-term perspective in the budget while keeping formal budget annuality.
- <sup>9</sup> The Social Security Financing Act for year Y therefore includes the current year actuals (Y-1), the next year’s forecasts (Y) and estimates for the year after (Y+1).
- <sup>10</sup> The first Law on the Programming of Public Finances was adopted in 2009 (covering the 2009-2012 period), and the second one in 2010 (covering the 2011-2014 period).
- <sup>11</sup> The 2012 Organic Law the creation of the High Council for Public Finances (“*Haut conseil des finances publiques*”), which is discussed in more detail in Chapter 6 of this report.
- <sup>12</sup> Although the Constitution also limits this autonomy by granting to Parliament the capacity to decide transfers of revenue between local governments based on a number of criteria.
- <sup>13</sup> Part of the use of taxes to fund the social security reflects the ongoing policy to reduce social contributions for employers in order to support job creation.
- <sup>14</sup> In 2018, earmarked taxes are expected to rise to EUR 277 billion, of which EUR 201 billion will go to social security, EUR 53 billion to the local governments and EUR 24 billion to State operators.
- <sup>15</sup> The study highlights “five different taxes on pharmaceutical companies, taxes on company cars and a share of a global tax for all companies above a certain level of net sales, (...) taxes on consumption or behaviour, including a share of the VAT, a tax on personal health insurance and taxes on tobacco and alcohol” and a so-called universal social tax (“*contribution sociale généralisée*”, or CSG).<sup>16</sup>
- <sup>16</sup> More limited exercises can take place in between, for instance in connection with supplementary budget acts.
- <sup>17</sup> The latter are not only the new measures included in the new budget or financing law, but also the new measures included in the State Budget Act or Law on the Programming of Public Finances of previous year that come into force in the upcoming year.
- <sup>18</sup> Per EU regulations, stability programmes contain information on the development of the general Government structural balance over the medium-term; the development of the general Government expenditures, revenues, balance and public debt, subdivided by sub-sector of the national accounts; growth of general Government expenditures, net of new tax measures; a computation of the revenue impact of new tax measures; the sensitivity of the budgetary variables for the most important hypotheses of the macroeconomic forecasts; a justification of possible deviations from the development path of the budgetary variables from the path recommended by the EU Council.
- <sup>19</sup> In France, the Directorate for the Treasury, within the Ministry of Finance, is leading work on economic policy and relationships with the European Commission. It works in close co-operation with the Directorate for the Budget, which leads work on fiscal policy and annual budget formulation and execution.
- <sup>20</sup> The Court of Account has indicated in its report of September 2014 that this problem is particularly acute in relation to social security.

- 21 However as the Law on the Programming of Public Finances is prepared later in the year (at the same time as the annual budget), it often includes macroeconomic developments and new policy measures that were not known at the time of the Stability Programme formulation.
- 22 The structural effort is the difference between the potential growth of GDP and the growth of expenditures minus the proceeds from discretionary revenue measures (the latter possibly negative in case of tax or non-tax relief). The current programming law interprets this requirement as a structural deficit of less than 0.4 % of GDP.
- 23 The Court of Accounts, in particular, has been critical in recent year about fiscal forecasts for the State and for social insurance revenue.
- 24 In France, civil servants are mainly recruited at the beginning of their careers, through highly competitive examinations and are granted the right to a career in government for the whole of their work-life.
- 25 France's Stability Programme for 2017 specifies that "Central government guarantees cover a wide range of actions to sustain or preserve economic activity or to provide financing for certain economic agents when market financing is inadequate. These guarantees are given under clear-cut agreements and they include in particular: central government debt guarantees, guarantees related to general interest functions (insurance mechanisms operated through the central reinsurance fund, export loan guarantees through COFACE, guarantees to protect savings, etc.), liability guarantees (e.g. for France's share of ESM callable capital) and central government financial commitments for co-financing projects and providing development assistance. Generally speaking, the risk of such guarantees being invoked is small. Furthermore, no new central government guarantees can be given other than in a Budget Act, as stipulated in the LOLF."
- 26 The inclusion of natural catastrophe insurance cover in France is mandatory in all comprehensive home insurance policies. Created in 1982, the Insurance Central Cash Office ("*Caisse Centrale de Réassurance*", or CCR) is a public-private partnership providing government-guaranteed reinsurance. As part of the French Cat. Nat. scheme, the CCR was founded on the principle of national solidarity, leading to catastrophe insurance available to all at rates set by decree and uniformly priced regardless of risk.
- 27 The very significant size of the SOE sector in France would justify close monitoring of this risk. A recent OECD report (2014) notes that "the absolute size of national SOE sectors is notoriously difficult to compare. For example, corporate valuation often fails to offer a sufficient point of comparison due to large national differences in definitions and corporate accounting practices. Arguably, a more useful measure of SOE sector size is number of employees. (...) By this measure, the largest SOE sectors in the OECD area are found in Norway (10% of national employment), followed by France and Slovenia (6%). If minority-owned listed entities are included in the comparison, the employment share reaches over 10% in Norway, France and Finland. Measured by total number of employees France has by far the largest SOE sector in the sample area, employing nearly 1.6 million people."
- 28 The Commissariat-General for Strategy and Foresight's missions are to: 1) provide an independent evaluation of public policies; 2) anticipate future changes in French society regarding economy, society, sustainable development or technology and analyse the issues they raise in the medium term in order to prepare the conditions for political decision; 3) foster a dialogue between the social partners, civil society, business, the community of experts and academia; 4) propose policies and reforms and provide orientation to the government, highlighting possible trade-offs, and foreign experiences.
- 29 Different estimation methods are used in order to construe them. *Deterministic* methods are used for expenditures that are determined by socio-economic variables such as demography and inflation. *Historical* methods are used for expenditures of which the determinants are not well-known, such as the investments. *Normative* methods are used for controllable expenditures, in particular expenditures that are subject to limitative authorisations.

- <sup>30</sup> Conferences deal with baselines (“the technical conferences”), new measures (the “budgetary and assurance conferences”) and refinement of the distribution of expenditures over the line items (“partition conferences”).
- <sup>31</sup> As such, AEs are consumed at the commitment stage of the expenditure, which is in most cases the legal act of signing a contract with a third party.
- <sup>32</sup> The programming law of 2014 stipulated that for each year of the programming period and for all expenditures subject to limitative authorisation, at least 0.5 % of the payment authorisations for personnel expenditures and at least 6 % of the payment and commitment authorisations for all other expenditures had to be set in reserve. In 2016, the freezing rate was set in the annual budget law at 8 % of the payment and commitment authorisations for other expenditures than personnel (amounting to EUR 9.6 billion). In the course of the year the freezing rate was further increased to around 13% (reaching EUR 14.0 billion).
- <sup>33</sup> For example, of the EUR 14,0 billion that were frozen in 2016 (excl. personnel expenditures), EUR 8,2 billion were made available in the course of the execution year and EUR 2.8 billion remained frozen to the end of the execution year and finally cancelled (the remainder being reallocated).
- <sup>34</sup> Rolled out in 2011, Chorus is based on an SAP solution and was designed to make a unique and integrated information system that conforms to all requirements of the LOLF. It is available to all ministries (at both central and local levels) and manages expenditures, non-tax receipts and budgetary and accrual accounting as well as internal controls, all in one workflow. Through, the Directorate of the Budget can at any point in time have access to commitments and payments done on each mission, programme and action within the State budget.
- <sup>35</sup> France's Green OAT funds central government budget expenditure and expenditure under the “Invest for the Future” programme to fight climate change, adapt to climate change, protect biodiversity and fight pollution. The proceeds are managed in compliance with the general budget rule and finance an equivalent amount of Eligible Green Expenditure. In practice, the proceeds of the Green OAT are managed like those of a conventional OAT, but the allocations to Eligible Green Expenditure are tracked and reported.
- <sup>36</sup> The new Government recently announced its intention that all tax provisions be enacted in the State Budget Act. In practice, in the past, most changes to tax and duties have been contained in the State Budget Act, with however some exceptions.
- <sup>37</sup> For example the Australian Department of Finance (Finance) summarises the hierarchy of the different level at which performance information might be useful in informing government decisions about how to allocate public resources. The four broad categories include information for accountability to the parliament and public, information for strategic decision-making to ministers, the Cabinet and governing boards, information for tactical or entity-based decision-making, and information for management/operational decision-making.
- <sup>38</sup> A similar, but shorter, document (“*Situation mensuelle du budget*”, or SMB) is also prepared by the Budget Directorate.
- <sup>39</sup> [www.performance-publique.budget.gouv.fr/](http://www.performance-publique.budget.gouv.fr/)
- <sup>40</sup> France is among the countries that have the highest number of Parliamentary seats per citizen. This has recently raised concerns, generating proposals from both the executive and legislative branch of Government to significantly decrease their number.
- <sup>41</sup> The Stability Programme, prepared as part of the European Semester, is presented in April in Parliament, but not submitted to its approval. The Preparatory State Budget Report is supposed to be consistent with Stability Programme’s objectives, subject to any significant economic or fiscal event impacting forecasts.
- <sup>42</sup> In the National Assembly, he also reviews amendment proposals from parliamentarians.

- <sup>43</sup> There were 70 such sectoral rapporteurs nominated in 2017.
- <sup>44</sup> Private Members' Bills are also not admissible where their enactment would result in either reducing revenues or in new or increased expenditures.
- <sup>45</sup> In the National Assembly, he also reviews amendment proposals from parliamentarians.
- <sup>46</sup> In 2016, however, the Senate Finance Committees conducted hearing of the Minister of Economy and the Court of Accounts and also heard a number of programme managers.
- <sup>47</sup> Recently, both the President of the French Republic and Chair of the National Assembly called for reforms that would allow the Parliament to spend less time debating amendments with little viability or financial impact and more time scrutinising results achieved, both financial and in terms of performance.
- <sup>48</sup> For example, the Austrian Parliamentary Budget Office was set up as part of a larger budgetary reform process that also introduced performance budgeting and a requirement that each ministry set five key goals that must be approved by the National Council. One of the core elements of the PBO's mandate is to consult with the Budget Committee on performance budgeting where there is new scope for the legislature to exercise influence and demand accountability. To this aim, the PBO helps address some of the challenges typically identified with parliamentary review of performance information. For example, the OECD Review of Budget Oversight in Ireland (Downes and Nicol, 2016) noted among other things "poor presentation of performance information" and "lack of dedicated resources to support scrutiny of performance" in the parliament. Specifically, in relation to performance, the Austrian PBO: 1) creates maps giving an overview on performance information (objectives, measures and indicators) to improve transparency; 2) provides general information on key issues and questions in respect of performance budgeting (e.g. understanding outputs versus outcomes); and 3) analyses the outcome orientation in the performance information (e.g. stronger harmonisation of targets between different line ministries) (Austrian PBO, 2016).
- <sup>49</sup> In particular, the LOLF stipulates that the National assembly and Senate Finance Committees can request "studies" to be conducted by the Court of Accounts, whose findings and recommendations are formally presented to the Finance Committee, in the presence of all concerned stakeholders. Finance Committees then prepare a report summarising their opinion the Court of Accounts' findings and recommendations.
- <sup>50</sup> Against a background of sustained public deficits, discussions on the creation of an independent fiscal institution started in early 2010. The debate was led by a group of experts and parliamentarians chaired by the economist Michel Camdessus, which discussed various ways to improve fiscal governance and anchor a fiscal rule in the constitution. Many reservations were expressed at the time, notably by parliamentarians. There were, for example, concerns about how an independent fiscal institution would fit into the current institutional framework ("would its functions overlap with those of the Court of Audit? Would it undermine or supplant the role of the Parliament in budget oversight?") (OECD, 2016)
- <sup>51</sup> While Finland initially placed its IFI functions in a "Fiscal Policy Evaluation" unit in its National Audit Office, a second independent fiscal institution, the Economic Policy Council was established in January 2014.



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