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RÉPUBLIQUE FRANÇAISE

# **PEMPAL CROSS-COP EXECUTIVE MEETING INTRODUCTION TO THE FRENCH PUBLIC FINANCE SYSTEM**

## **ORGANIC BUDGET LAW**

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**PARIS, 4 SEPTEMBER 2012**

# The French budget and accounting reform

- A reform of public management, which is a vital part of State reform
- Adoption of the Constitutional Bylaw on Budget Acts of 1 August 2001 (“LOLF”)
- A new financial constitution for the State voted unanimously following a parliamentary initiative
- 4 years of implementation (2002-2006), including experiments
- 6<sup>th</sup> full year of application of the reform since 2006, giving useful feedback



# The main objectives of the French reform: meet the expectations of....



**elected  
representatives**

- Increased budget clarity and transparent implementation
- Improved allocation of resources to public policies



**citizens**

- Citizens: better understanding of how taxes are used
- Users: public services that are more suited to requirements
- Taxpayers: improved use of taxes



**officials**

- Greater freedom and increased responsibility for members of the administration
- Clear objectives

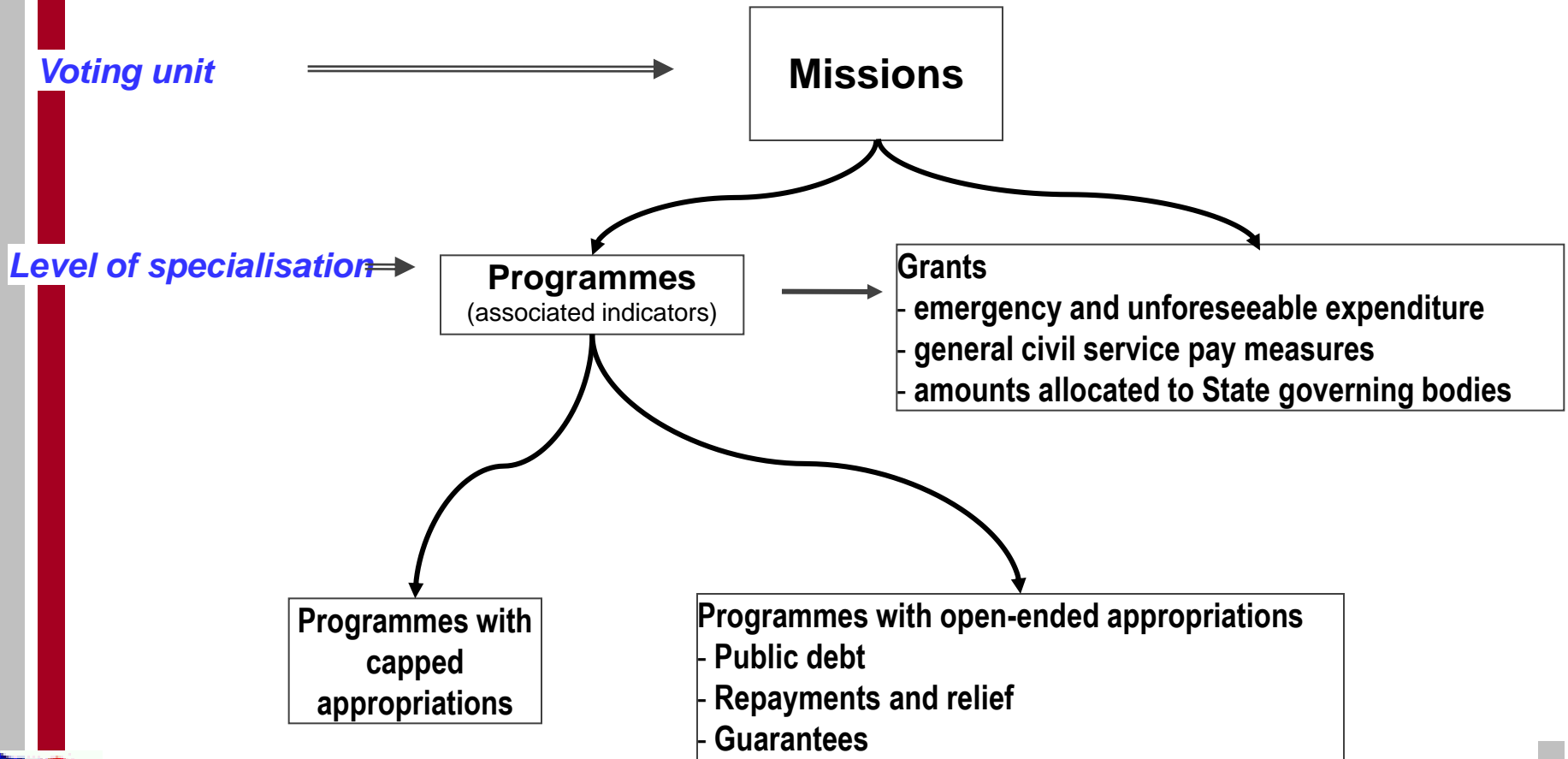


# Several reforms in a fundamental act

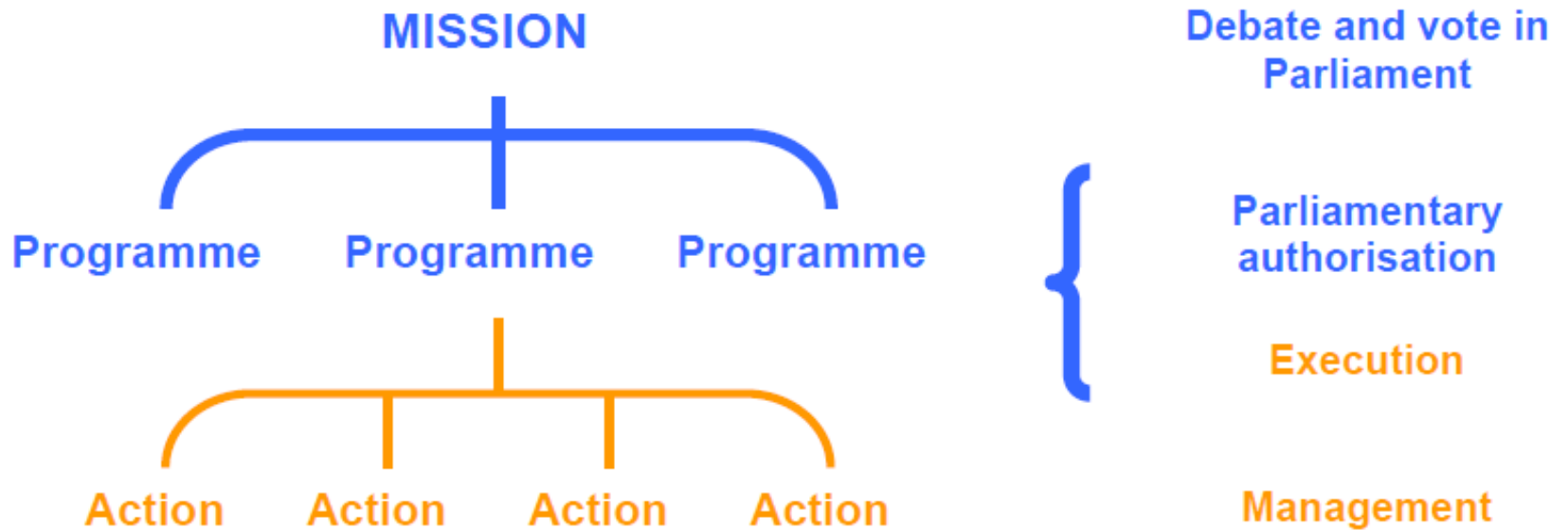
- A new **budget classification** for the discussion, vote and implementation of budget acts in order to present the **purposes of the expenditure** (program budgeting)
- A **results-oriented budget** with **performance** targets and indicators to enable a new type of public management
- Accounts that are more transparent and more accurate, based on **accrual accounting** and cost analysis, which give managers new tools to manage their expenditure
- A new budget governance and procedure system: governmental collegiality and a more active role for the **Parliament** in expenditure authorisation and control



# 1. The new budget architecture



# The new budget architecture



# The mission: an expression of political choices

## 32 missions for general budget

- Identification of consistent public policies: “A mission covers a set of programmes designated to contribute to a defined public policy”
- A mission forms the voting unit for Parliament
  - it groups together a set of programmes,
  - Parliament can reallocate appropriations between programmes, within a mission.
- A mission can be ministerial or inter-ministerial
  - 8 inter-ministerial missions,
  - e.g. the “Research” mission, which concerns 6 ministries



# “Research and Higher Education” mission

12 programmes / 6 ministries

- Higher education and university research
- Student life
- Multidisciplinary scientific and technological research
- Research in the field of environmental and resource management
- Space research

**Higher  
Education and  
Research**

- Industrial research

**Economy,  
Finance and  
Industry**

- Research in the field of risk and pollution
- Research in the field of energy
- Research in the field of transport, infrastructure and housing

**Ecology and  
Equipment**

- Combined civil and military research

**Defence**

- Cultural research and scientific culture

**Culture**

- Higher education and agricultural research

**Agriculture**



# The programme: a framework for the authorisation and management of public policies

## 125 programmes for general budget

- A programme covers appropriations (regardless of type) for implementing an action or a consistent set of actions (600)
- A programme comes under the same minister
- A programme forms a specialised unit for appropriations and for defining objectives and results indicators
- No budgeting by cost
- A programme requires steering, which has created new managerial functions



# The globalisation of appropriations

## Example of the “justice” mission

**Before: 30 chapters**  
**160 forecast budget headings**

### Section III - Departmental resources

- Personnel - wages and salaries
- Retired personnel - pensions and allowances
- Active and retired personnel - social security charges
- Departmental equipment and operations
- Operating subsidies
- Miscellaneous expenditure

### Section IV - Public interventions

- Political and administrative interventions
- Social interventions - assistance and solidarity

### Section V - Investments made by the State

- Administrative and various equipment

### Section VI - Investment subsidies granted by the State

- Cultural and social equipment

**After: 5 programmes**

**Judicial justice**

**Penitential administration**

**Judicial protection of young people**

**Access to law and justice**

**Running and steering of the justice policy and associated structures**



# Feedback

## The positive

- A better identification of consistent public policies
- A better budgetary negotiation for the whole public policies
- A strong lever for reduction of central administration directorates (General Review of Public Policies)
- Mission = element of multi-year budgeting

## To improve

- The absence of interministerial missions responsible
- Presentation of cross cutting issues (specific documents)
- Understanding by parliamentarians support programs covering all the functions undivided: the CAC
- The temptation of ad hoc programs



## 2. Greater freedom in exchange for greater accountability

### Increased freedom for members of the administration

- Globalisation of appropriations by programme
- Redeployment of appropriations by type, but with a cap on the total wage bill
- Freedom to redeploy personnel within a limit of a number of job positions expressed as a full-time equivalent

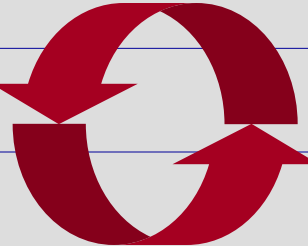
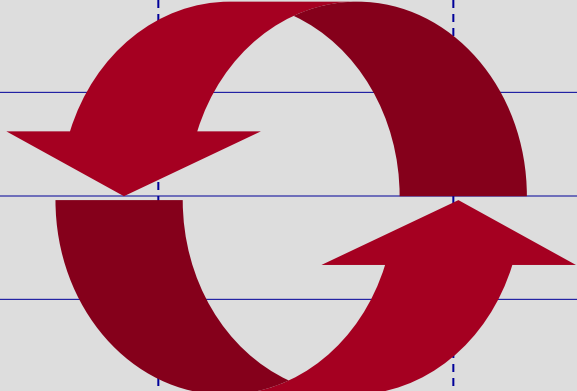
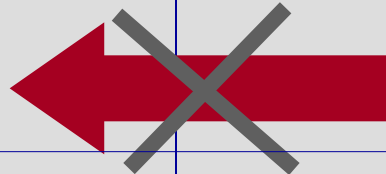

### Greater accountability for programme managers

- Commitment to objectives and reporting on results
- Report on the use of appropriations by type and by purpose of the expenditure
- More information on budget execution in terms of commitments and payments



# The redeployment of appropriations within a given program, between nature of expenditures, subject to maximum wage bill

## Programme POLICE

	II – Staff costs	III - Current expenditure	V - Capital expenditure	VI - Subsidies
Public order and protection of sovereignty				
Public safety and peaces				
Road traffic safety				
Immigration control and safety of international transport				
Criminal Investigation and support to justice				
Command, human resources and logistics				



# Feedback

## The positive

- A real new freedom allowing redeployment of staff costs between them and current appropriations between them
- More flexible jobs (ETP) under the ceiling leading to budgetary choices assumed by managers

## To improve

- Low freedom of redeployment personnel costs to operating expenditures
- Budgetary freedoms for jobs require more freedom to promote mobility
- Towards standardization support functions



### 3. A results-oriented budget: the search for PERFORMANCE

- ⇒ Objectives determined within the scope of the resources allocated (≠ budgeting by objective)
- ⇒ Objectives to reduce expenditure and improve efficiency
- A commitment to results: *annual performance plans (Initial Budget Act)*
- Reporting on results: *annual performance reports (Budget Review Act)*
- Same presentation, same structure as the annual performance plan, in order to facilitate forecasts/achievements comparison
- The Budget Review Act for n-1 is voted at the first reading, before the Budget Bill for n+1 is debated



# Performance meaning



- A **methodological guide** shared between the Government, the Parliament, the State Audit Office and the Inter-ministerial Programme Audit Committee (“CIAP”)
- A selection of objectives and result indicators that represent programme priorities
  - A **strategy** to explain coherence
  - **Objectives** to meet citizen, user and taxpayer expectations: a political choice
  - **Indicators** to measure the attainment of chosen objectives
- Objectives (500) and indicators (1,000):
  - Clarify the policies and are presented to Parliament in the **Annual Performance Plans** and reported on in the **Annual Performance Reports**
  - Used and detailed by internal management, giving a **sense of purpose to each employee**



# Performance aspects

- Three performance aspects:
  - **socio-economic effectiveness : OUTCOMES** (citizen's standpoint): the expected effects of public policies
  - **quality of the service provided** (user's standpoint): the quality required
  - **management efficiency** (taxpayer's standpoint): optimisation of resources
- Result measurement **indicators** for each objective, by setting targets (performance levels reached and expected)
- **Performance** objectives and not activity or resources objectives
- Objectives that are **attributable** to managers
- Ongoing control performed by an independent public body: the **Inter-ministerial Programme Audit Committee ("CIAP")**



# Feedback

## The positive

- A cultural transformation and a new challenge for managers
- Performance as a democratic record for value for money
- A clear choice on the principle
  - A **combined system**: efficacy indicators, as well as efficiency and service quality indicators, with the aim of driving administration performance.
  - Performance should primarily be a **management tool**, not a communication tool

## To improve

- **Too many indicators**, which are sometimes marginal in comparison to the issues
- **Not enough efficiency indicators (35%), which are not sufficiently standardized**
- **Harmonization is required** between indicators of the same nature; the **information systems** and reporting need to be **more reliable**
- **Not enough political support**
- **Question of the link between performance and budgetisation**

## 4. Information transparency

- The complete cost of **personnel expenses**, including employer payroll charges + all the **job positions** paid by the State expressed as “full-time equivalent worked” (“**ETPT**”)
- Justification as from the **first euro** of appropriations: a tool for explaining the budget using expenditure criteria
- Reinforcement of the **general budget rule** (budget appendices and special accounts)
- Presentation of **operators** (jobs and appropriations):
  - ⇒ Subsidies given for public service obligations
  - ⇒ 50% of programmes involve operators (spending and appropriations aggregated in Annual Performance Plans)



## 5. More transparent budget execution

- Commitment authorisations are generalised
- Appropriation movements are more strictly governed (Parliament)
  - Prior information and subsequent reports (transfers – reallocations – cancellations)
  - Possibility of issuing an opinion to suspend an appropriation (supplemental appropriations)
  - Capping in % terms of initial appropriations:
    - Reappropriations 3%
    - Advances 1 %
    - Cancellations 1.5 %
- From regulation to the precautionary reserve
  - Regulation: included in the LOLF and recognised by the Constitutional Council
  - LOLF amended on 12/07/2005:
    - A percentage of appropriations is placed in reserve for each programme (section 2 / other sections) as an appendix to the Budget Bill: the Parliament is informed
    - Visibility for the manager (firm tranche / conditional tranche)
- The supplementary period is limited



# Feedback

## The positive

- Budgetary documents very high in information
- Better monitoring of sustainability due to multi-year commitment authorizations
- Predictability for managers a precautionary reserve expected
- Transparency appreciated by the Parliament of the consolidation of information from government programs and operators
- A vision of full cost of expenditures on personnel and pension expenditures

## To improve

- Insufficient consideration of commitment authorizations
- Additional freezing of appropriations
- Moving from annual budget to multiyear budget program

## 6. The new accounting system

### Tools to measure the State's financial position

- Accounting raised to the level of a Constitutional Bylaw
- In addition to budget accounting on a cash basis, **accounting on an accrual basis** has been introduced in order to ensure the transparency of the State's financial position (balance sheet + off-balance sheet)
- **Lawful, faithful accounts** that give a **fair** and true view of the State's assets, liabilities and financial position
- A demand for **quality accounting** that is entrusted to the accountants, in liaison with the authorising officers

# Implementation of the new accounting system

1. Definition of the conceptual framework: accounting standards
  - 15 standards defined by a **standards committee** (concerning financial statements, charges, non-current assets, debts, etc.)
2. Declination of standards
  - The **accounting charter** by type (“PCE”)
  - The compilation of **accounting guidelines**
3. Drawing up the balance sheet
  - Identification and **valuation of the real estate portfolio** (market cost)
  - **Other tangible non-current assets** and inventories
4. **Annual certification** by the Court of Accounts: **since 2006, accounts have been certified by the State Audit Office** with some reservations (including 2 general reservations concerning the information system and internal control)

# Feedback

## The positive

- Useful information for managers
- Control and monitoring of inventories (ministry of defence)
- Monitoring of financial information (Checking debts: Accrued liabilities)
- Assistance in the discussion for possible outsourcing (full cost)
- Optimizing the management of real estate
- Relationships between budgetary accounting and accrual accounting

## To improve

- Many reservations up towards the Court of Accounts (Financial Information System - internal control)
- Workload for managers for which the interest of accounting is not easily understood
- Complexity of the construction of analytic costs



## 7. An increased role for Parliament

- A **clearer** budget
  - Discussion and vote by major public policy (mission)
  - Discussion of appropriations as from the first euro and of jobs, by ministry
  - Enriched information to control expenditure (Annual Performance Plans – annexes – Annual Performance Reports)
- **Debate** that is potentially richer
  - Extension of the amendments right: redeployments between programmes for the same mission
- During the **execution** phase, improved access to information for finance committees (regulatory instruments)
- Increased powers to investigate and **question** (recourse to the State Audit Office)
- Renewed importance of the **Budget Review Act** which includes the accounts and annual performance reports

# An enriched, modernised budget debate

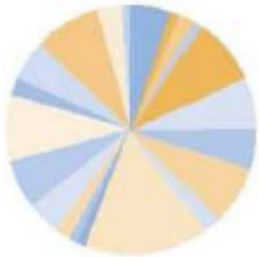
## Through to 2004



6% of the appropriations are voted on in detail by the budget debate

94% of the appropriations – the “current services appropriation” – are renewed in a single vote

## Since 2005



100% of the appropriations are discussed in Parliament and voted on by mission

# Feedback

## The positive

- Active role of the Finance Committee
- Monitoring of the reform every year by the Parliament
- Assistance of the Court of Accounts for the control and evaluation
- The role of the opposition (Chairman of the Finance Committee)

## To improve

- Amendment rights limited in practice
- Low interest of other committees
- No plenary debate and little mediatisation for the performance reports



## 8. A new system of accountability

- Steering by the programme coordinator
  - after allocation decisions are made by the financial affairs directors,
  - the programme coordinator has access to the appropriations and allocates them for the purposes of internal management,
  - the programme coordinator commits to achieving performance targets before Parliament: the **Annual Performance Plan**,
  - the programme coordinator reports to Parliament: the **Annual Performance Report**.
- Programme coordinators can steer several directorates
- “Managerial” **responsibility**, and merit-based remuneration



# Responsibility and deconcentration (devolution) of budget management

National programmes are broken down into **Programme Operating Budgets (“BOP”)** (for a perimeter or territory)

- An action plan with performance objectives and indicators that are adapted to the operational issues for decentralised services
- A forecast budget, which is detailed by expenditure purpose and type
- A financial organisation scheme
- In terms of management: the **programme operating budget manager**
  - Has a programme operating budget.
  - Commits and reports to the programme coordinator as part of the management dialogue.



# Feedback

## The positive

- A new concept of program managers
- Hearing of program managers by Parliament
- Identification in the budgeting documents

## To improve

- No "status" depriving sometimes hierarchical functions (ongoing decree)
- Its position towards financial managers and human resources directors
- Positioning towards the general secretary in charge of modernisation



## 9. Streamlining of controls by the finance ministry

**Budgetary controllers are members of the Budget Department**

- ➔ **Budgetary control of sustainability** (Decree of 27/01/05)
  - Abandonment of the compliance control entrusted to managers
  - Upstream approval of initial budget programming
  - During management: modularity of controls with a priori control depending on the issues and risks
  - Quarterly management reports by managers
- ➔ **Streamlined accounting control of expenditure payment:** hierarchical or through partnerships
- ➔ But reinforced **internal accounting control** to guarantee “**accounting quality**”

# Feedback : the positive

- Development of the controls exercised by line ministries
  - Development of management control: “improve the ratio of the resources invested to the service or results obtained”
    - Ministerial management control, by programme and at local level
  - Reinforcement of internal control:
    - Result of the reorganisation of the ministries and the streamlining of financial controls
    - Implementation of internal accounting control
  - Development of internal audit:
    - External activity led by dedicated teams





## 10. The implementation of new financial information systems

- A provisional system was implemented as early as 2006, which was not very satisfactory
- A new integrated software package (ERP) that is under construction (CHORUS) includes:
  - All central and devolved administrations
  - All expenditure and revenue applications and all forms of accounting
  - Data information centres to allow reporting packages to be produced
- A lever for modernisation and productivity, following “**re-engineering of the financial processes**” (23,000 licences instead of 45,000)
- **Progressive deployment** between 2009 and 2012
- Ongoing assistance is vital during deployment

# Lessons form implementation

- The need for involvement at the highest level (**political support**)
- The need to train **public managers** in accountability awareness
- **Training** is vital in ministries for all officials, regardless of their level (training for trainers)
- Use of **experiments** to make the reform a success
- External and internal **communication**
- The need for impetus to come from the **timeline**
- A long term process, to change cultures

# More long-term challenges

- **A political challenge:** the reality of Parliament's role
- **An administrative challenge:**
  - ↪ Consistency between the perimeters of the major programmes (100) and the competencies of the central administrations (200 directorates)
  - ↪ Relations between the central administrations and devolved services
  - ↪ Relations between the players: finance ministry/spending ministries; programme operating budget managers/support divisions
  - ↪ Incentives to achieve results and improve the management of human resources (careers, salaries, bonuses, etc.).
- **A cultural challenge:** the move from a resources-based culture to a results-based culture
- **A technical challenge:** improve the information systems in terms of data quality and reliability.