

Titre



Sous-titre

Bureau XXX

- Section n – role of the budget department in the budget outturn
 - Main objectives: be a part of a virtuous chain between the initial budget act and the budget review act – make a reality of the path of public finances
 - A rigorous process throughout the year
 - A bunch of solutions and means available for this purpose

- Section n+1 – the issue of financial reporting in the public sector
 - A matter of growing concerns
 - The coexistence of two public accounting systems: cash-basis accounting and accrual-basis accounting
 - Issues concerning accounting normalisation and harmonisation processes over European Union

The role of the budget department in the budget outturn in France



The budget outturn process intends to fulfil two main objectives

Tracking the budget outturn is one of the key steps in public finance management.

- The budget outturn process intends to fulfil **two main objectives**:
 - 1/ The first one is to **ensure the actual budget outturn will comply with the State spending authorisation**, defined and adopted by the Parliament.
 - This means developing tools and procedures in order to avoid any spending that would exceed the Parliament's authorisation.
 - The budget directorate has to ensure that the initial budget act articulates with the budget review act in line with the budget policy defined by the Government.
 - 2/ The second one is to **make a reality of the political ambitions regarding the path of public finances**
 - Public finance management not only relies on budget planning and the vote of the initial budget act, where a path is defined, but it also relies on the close respect of this path in the course of annual budget outturn.
 - This means **handling with unknown factors and contingencies in the economic situation**, that will necessarily rise throughout the year. State spending forecasting is a key process for this purpose.
- This **second objective has become even more critical** whilst most of European countries, including France, are implementing a **public finance improvement program**.
 - Strong initial commitments are of no use if a Government is not in capacity to make them become true during the budget outturn process.



France has adopted a normative approach of the budget outturn

In order to secure the improvement in the budgetary balance, French State has adopted conceptual tools that are used both in the budget planning and the budget outturn processes.

- France has adopted for several years now **conceptual tools** in order **to ensure French public finances follow a sustainable path**.
 - These tools rely on the principle of **growth expenditure norm**: it is about **steering/monitoring the evolution of a specific perimeter of public spending according to binding rules**.
 - These are **instruments to assess the capacity of the French State to control the evolution of its spending**, both at the budget-planning time and, later, at the outturn time. These instruments also give indications of the evolution of the budget deficit.
- The French state has been using **two growth expenditure norms** since 2011:

Norm “0 volume”

- French State expenditures **cannot not grow faster than prices inflation**
- It includes **all State spending** (public interventions, investments, functioning costs, wages, pensions, debt service) and **revenues paid to the European Union and local and regional authorities** (since 2008)

Norm “0 value”

- French State expenditures included in this perimeter **cannot grow in absolute value**
 - This perimeter includes public interventions, investments, functioning costs, wages and revenues paid to the European Union and local and regional authorities (**it excludes debt service and pensions**)
 - This norm has been used since 2011 and is more stringent
- These two norms are used as underlying assumptions in budget planning. They remain **a critical constraint during the budget outturn**, in order to avoid any deadweight effect following for instance a debt service cost reduction or to avoid any non-virtuous recycling of appropriations.
 - These two norms are also relevant regarding the difference in the **State capacity to weigh on the growth of expenditures** in the two perimeters (higher capacity to weigh on spending of the norm “0 value”).
 - **A different level in State accountability** at the outturn level between these two perimeters

The forecast of public expenditures – one of the essential underlyings of the budget outturn

A precise State public expenditures forecast is essential to ensure the respect of the two spending norms at the end of the year.

- The budget directorate (DB) is **responsible for State spending forecasting**. In case of signs of deviation from the respect of growth expenditure norms, the DB has to **identify and suggest corrective measures to the Government**.
 - Given the existence of **carryovers, estimated appropriations, provisions and the possibility of economic or political external shocks**, the DB's responsibility is crucial and demanding.
- To evaluate the final outturn, the DB carries out **three expenditures forecasts**, in April, July and October. The final forecast implies the preparation of a last budget amendment act, in order to take into account the final appropriations adjustments.
 - These exercises **mobilize all the offices in the DB, which are specialised by fields of public policies** (transports, pensions, national defence, agriculture, ...).
 - These forecasts are accomplished at **a very high level of granularity** (one forecast for every single public policy), and often rely on the use of **spending models** inferring the final level of spending on the grounds of current recorded expenditures.
 - To perform these forecasts, the DB also benefits from **the presence of budget controllers within each ministers**, regularly informed about the actual evolution of expenditures: these controllers are able to get a precise knowledge of expenditures in a given minister thanks to nearly daily contacts with the budget spending centres of this minister.
 - Since the deployment of **a unique financial information management system** across the State (Chorus), the DB has a precise and up-to-date knowledge of the incurred expenditures.
 - Once the forecast has been carried out, the DB builds up a **“financing scheme” in order to reallocate free appropriations to write off additional costs on public policies that exceed their initial budget**.
 - A difficult task is to identify free appropriations that exist over the field of public spending.
 - **Eventually, this identification requests a political arbitrage.**
 - These forecasts about State expenditures are used to feed a forecast of the whole public sector: by this way, the Government has a good idea of the infra-annual evolution of public debt and public deficit.
- In the last weeks of the year, the budget outturn office in the DB is in charge of monitoring State expenditures in order to guarantee a strict respect of the final spending target defined by the Government.

French State has set up several means to ensure the respect of the budget act

On the ground of the repeated expenditures forecasts, the DB is able to propose corrective measures in order to respect the growth expenditures norms.

- 1/ **An improved accountability of the spending ministries and budget managers:**
 - In order to prevent a deterioration of their financial situation, **budget managers may reallocate appropriations among the different sub-parts of a same specific public policy**: the sole limitation is that these reallocations may not increase staff expenditures (asymmetric fungibility).
 - At the scale of a ministry, **appropriations adjustments may also be possible by decree** (assuming these adjustments are not of too much importance regarding the equilibrium of the budget act in force).
 - By improving the accountability of budget managers, **most of overcosts are written down by economies within the same ministry**: in exchange of a greater autonomy, budget managers have an incentive to respect the budget they were allocated in the first place (self-insurance principle).
- 2/ The presence of **budget controllers** within spending ministries:
 - They verify and approve financial operations carried out by ministries: in particular, they assess the sustainability of financial operations regarding the budget situation;
 - They display a deep and precise knowledge of the evolution of expenditures in a given ministry, that allows them to inform and alert when a risk on the budget outturn is likely to arise.
- 3/ **Some headrooms granted to the Government by the Parliament:**
 - **Possibility of creation of appropriations by decree to face urgent and unpredicted needs**, though these appropriations must be pledged by cancellations;
 - **Existence of provisions** in the annual budget act to face accidental or unpredictable expenditures, or existence of specific provisions to cover certain spending (for instance foreign military operations);
 - **A precautionary reserve**, endowed with appropriations taken on the budgets of every ministries (6% of any appropriations, other than those relating to staff expenditures, and 0,5% of appropriations relating to staff expenditures) : **these appropriations are said to be frozen, and can only be returned to ministries by a decision of the minister in charge of finances.**
 - The major part of the “frozen” appropriations will be returned to their initial ministries, however, **a significant share is cancelled in order to cover the overcosts incurred by some ministries.**
 - **This reserve is a way to prevent a deterioration of the budget deficit target even if budget vicissitudes materialise during the year.**
 - The precautionary reserve can be increased in order to identify some hidden margins, and secure the budget outturn.
- All these factors help to prevent a deterioration of the budget deficit situation during the year: **the Government is able to face uncertainty to a certain extent.** In case of substantial modification of the equilibrium of the initial budget act however, **budget amendment acts may allow larger adjustments.**

The challenges and issues of financial reporting in the public sector



The growing critical issue of States' financial reporting

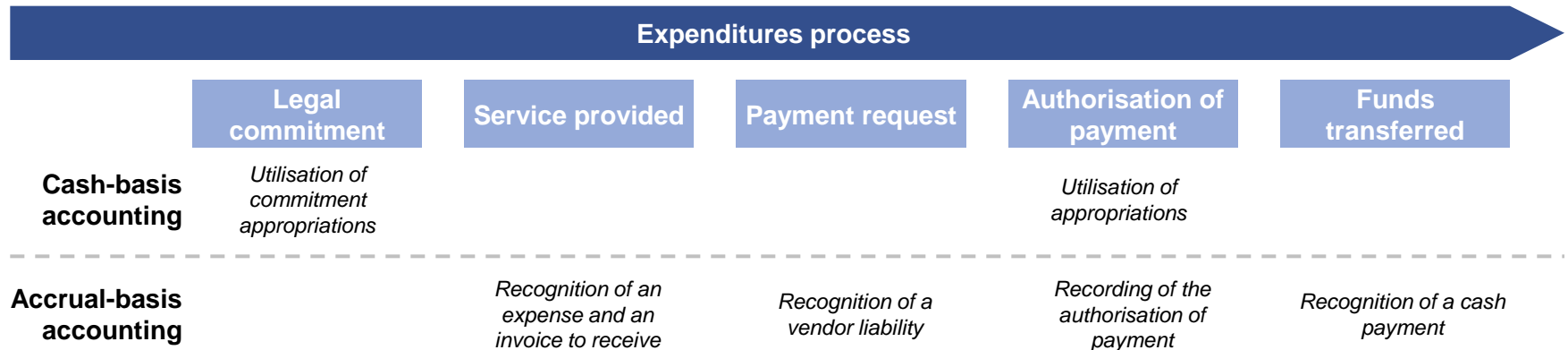
In addition to a rigorous budget outturn that ensures the respect of the initial path of public finances, the financial credibility of States relies on a transparent and reliable financial reporting.

- The outturn process represents a crucial period where political ambitions regarding budget deficit reduction or improvement of public finance situation are under a great pressure by economic and political contingencies.
- Once the outturn process is over (and fortunately enough, it stuck to the initial path of public finance), **the Government owes accountability to citizens, taxpayers and investors** regarding State public management. Several documents contribute to this:
 - **Annual performance reports**: these documents give very precise information about the budget outturn during the last year (first Euro justification) and display updated information about the performance of public policies ;
 - **Cash-basis accounting**: this type of information describes the actual annual budget operations carried out over the last year (legal commitments and annual payments) ;
 - **Accrual-basis accounting**: this type of information **describes the patrimonial situation of the State**, its level of commitments and receivables regarding external counter-parts.
- All these documents are **released at the approval of the budget review act**, that closes the annual budget process.
- Lately, in the context of public debt crisis, **the accrual accounting part of public reporting has received a large and growing interest** from economic observers.
 - Indeed, accrual accounting is considered as **a way to improve the knowledge and understanding of national public financial situations**.

Public financial accounting systems in France

The French state keeps two types of accounts: they each have a different scope.

- According to article 27 of LOLF (constitutional bylaw on budget acts), **the French state produces two types of accounts**:
 - **Cash-based accounts**: designed to monitor the budget authorisation and its outturn ;
 - Since 2006, **accrual-based accounts**: designed to establish the picture of the actual financial situation of the French state.
- According to article 30 of LOLF, “the applicable rules to State accrual-basis accounting **do not differ from those applicable to companies, except for the specificities of State action**”.



- The French state **does not produce consolidated accounts** for the public sector: its accounts are limited to the sole State direct financial activities. Local authorities, public institutions or social security bodies produce their own separate accounts.
- **The French state’s accounts are certified by a third party**, the “Cour des comptes” (French State Audit Office).
 - The “Cour des comptes” is independent from the accounts producer. Indeed, it is a public institution whose independence is guaranteed by the French Constitution.
 - The “Cour des comptes” is responsible for the certification of regularity, sincerity and faithfulness of the French state accounts.

Public accounts harmonisation is currently an issue of a great debate

In the context of public debt crisis, comparability of public accounts, in particular accrual-based accounts, appears to be a central issue.

- In France, State accrual-based accounts are subject to **public accounting standards defined by the National council for standardisation of public accounts** (CNOCP in French):
 - This council prepares and releases pieces of advice. These pieces of advice are approved by order of the minister of finances ;
 - The organisation of the CNOCP is very similar to that of the French accounting Standard Authority (a steering committee composed of experts and French administration's representatives, supported by thematic working groups and punctual taskforces).
 - Public accounting standards are compiled in the RNCE (Statement of Public Accounting Standards).
 - In accordance with article 30 of LOLF, public accounting standards are as close as possible to the private companies accounting standards.
- **The issue of diffusion of accrual-basis accounting must be separated from the issue of IPSAS** (International Public Sector Accounting Standards):
 - IPSAS are a set of accounting standards derived from the IAS/IFRS norms: they are **the result of a private-sector initiative** led by the IPSAS Board, peripheral body of the International federation of accountants (IFAC) ;
 - IPSAS represent **a set of accounting standards among others**: France reiterated on several occasions that **IPSAS are not a self-sufficient, relevant and legitimate reference**;
 - The implementation of IPSAS is **of no use if a state is not able to keep reliable accounting information**;
 - IPSAS conceptual framework **does not cover all specificities of public actions**, in particular regarding social benefits;
 - **IPSAS Board is not legitimate to define public accounting standards**: its main concern is about private investors' interests.
 - However, **France strongly supports the diffusion of accrual-basis accounting among European member states**. This process is not a matter of which standards should be used, but a matter of implementing deep public reforms in order to **build reliable and efficient financial control departments at the State level**.
 - For the same reason, the deployment of a sophisticated financial reporting system is a necessary but not sufficient condition for implementing accrual-basis accounting.
- At the European Union level, **the building of a common set of public accounting standards is a crucial project**. However, the success of this project rests mostly on the reliability of the public financial control departments of Member States. This standardisation process is essential, in particular in a perspective of further budget integration and a context of **increased competition for accessing to public debt markets**.

Final comments

To conclude, it appears the budget outturn process and State financial reporting are two crucial aspects of public finance management.

- The budget outturn process is of vital importance to materialise the political ambitions relative to public deficits reductions. This process is even more critical in a context where public expenditures withstand strong rationalisation in a relatively short-term perspective.
- A successful budget outturn process is of no use if it is not supported by a reliable and transparent financial reporting.
- In order to improve the informative value of State financial reporting, the development of accrual-basis accounting allows the Government to display a relevant picture of its patrimonial financial situation. This type of information is of a crucial need for investors, and therefore, it has become more necessary in the context of public debt crisis.
- A successful implementation of accrual-basis accounting is more related to the existence or the building of a strong, reliable public financial control function. The choice of accounting standards is of secondary interest.
- Public accounting standardisation among European Union Member states will constitute an important issue in years to come, in particular in a context of growing competition for accessing to public debt markets. IPSAS are not a mandatory solution: EU member states should preferably pursue a specifically-EU designed set of public accounting standards.



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