Guide to
the Constitutional Bylaw on Budget Acts
Updated edition - October 2008

Foreword

Éric Woerth, Minister for the Budget, Public Accounts and the Civil Service

In the summer of 2001, the French Parliament launched a radical transformation of public management with the adoption of the Constitutional Bylaw on Budget Acts (LOLF). The transition gave Parliament a greater role in budget voting procedures and budget oversight and made public action performance-based.

We have come a long way since the LOLF was passed.

In the summer of 2007, Parliament passed the Budget Review Act for 2006, winding up the first budgetary and accounting cycle in "LOLF mode". This cycle started in 2005 with the heralding of the first annual performance reports and the first LOLF-format budget for 2006. It ended in 2007 with the first certification of the central government financial statements and the presentation of the first annual performance reports to Parliament.

The LOLF is now well established in the budgetary and administrative procedures. It has made a clean break with past practice and is driving a long-term move to improve public management.

The success of the LOLF does not mean that we have finished reforming the governance of our public finances. Initial results are good, but we still have a great deal to do to make our government system more transparent and efficient, and to satisfy the needs for public action performance and democracy that form the basis of the LOLF.

It is to achieve these goals and balance the public administration accounts that the Pluriannual public finance policy act for 2009-2011 will set a year-by-year course for our public finances to include the reforms put forward by the General Public Policy Review.

The purpose of this new edition of the Guide to the Constitutional Bylaw on Budget Acts is to present the ambition of the budgetary and accounting reform, how it is being conducted, a clear and concise explanation of its basic principles, and its first success stories.

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A new budgetary framework to improve transparency and introduce a performance-based culture

The Constitutional Bylaw on Budget Acts (LOLF) was enacted on 1 August 2001 to overhaul budgetary and accounting rules that dated back to 1959. After more than four years preparing the ground for its practical implementation, the bylaw came fully into effect on 1 January 2006. The Budget Act for 2006 was the first to be fully prepared, adopted and executed using the new budgetary framework.

The LOLF has extensively reformed the budget with clearer and more transparent budget acts. The performance-based culture introduced by the bylaw has also improved spending and the effectiveness of public action for the benefit of all: the general public, users, taxpayers and government staff.

The origins of the LOLF

In the late 1990s, Parliament launched a debate on the cost-effectiveness of public spending and the role of the assemblies in budgetary matters. These discussions gave rise to a political consensus on the need to modernise the budgetary and accounting management rules. The Constitutional Bylaw on Budget Acts – LOLF – was passed on 1 August 2001, giving the administrations four years to prepare for this new framework.

Budgetary and accounting rules dating back to 1959

Prior to 1 January 2006, the roles and powers of the Government and Parliament in the preparation, vote on and execution of the State budget were governed by the **Constitutional Bylaw of 2 January 1959. This founding text established a general framework for the budget procedure** under the rationalised parliamentarianism of the Fifth Republic.

Since 1959, however, a great deal has changed in the political, institutional and European environment and in the role of Parliament in budgetary and financial matters.

The main OECD countries and our leading European neighbours have also embarked on fiscal reform.

Over a period of 40 years, 36 bills were tabled to amend this Constitutional Bylaw, all to no avail.

A favourable climate and an exceptional political consensus

The LOLF is the upshot of **a National Assembly bill tabled in June 2000 and underpinned by a political agreement with the Senate and a consensus with the Government.** The main players in this parliamentary move were Alain Lambert, Senator and then Chairman of the Senate Finance Committee, and Didier Migaud, MP and then general rapporteur for the National Assembly Finance Committee.

The text of the constitutional bylaw was discussed from 7 February to 28 June 2001 and was approved by the Constitutional Council on 25 July 2001. The LOLF was enacted on 1 August 2001 and came fully into effect on 1 January 2006.

A new budgetary framework after four years of intense preparations

It took four years to prepare the ground for the practical implementation of the LOLF. The Budget Act for 2006 was the first to be fully prepared, adopted and executed using the new budgetary framework.

Didier Migaud, general rapporteur for the National Assembly Finance Committee, speaking at the National Assembly on 21 June 2001:
"The two assemblies and the Government have been models of teamwork."

Alain Lambert, Chairman of the Senate Finance Committee, speaking before the final vote at the Senate on 28 June 2001:
"On this last day of the session, a new page will be written in the fiscal history of the Fifth Republic. [...] It is an exceptional moment, an outstanding moment, a major act of democratic maturity."

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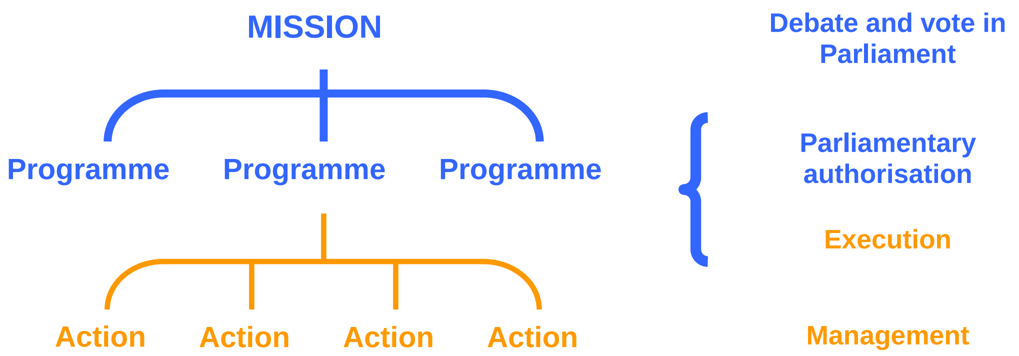
◗ The key dates of the reform

- **1 August 2001:** Enactment of the Constitutional Bylaw on Budget Acts
- **17 June 2002:** Creation of a Ministry in charge of the Budget and Budgetary Reform
- **10 March 2003:** Creation of the Budgetary Reform Directorate at the Ministry for the Budget
- **21 January 2004:** Presentation to Parliament of the first budget presentation template using the LOLF principles, one year ahead of the initial plan
- **22 September 2004:** Presentation to Parliament, for information, of the 2005 budget bill based on the LOLF
- **2 June 2005:** Attachment of the Ministry for State Reform to the Ministry for the Budget
- **5 July 2005:** Presentation to Parliament of the proposed bill for the 2006 budget
- **12 July 2005:** Enactment of the constitutional bylaw amending the LOLF
- **30 December 2005:** Winding up of the Budgetary Reform Directorate
- **1 January 2006:** Entry into force of the first budget passed using the LOLF principles
- **1 June 2007:** Publication of the first annual performance reports (APRs)

A clearer budget presented by public policies

Under the Constitutional Bylaw on Budget Acts (LOLF), the budget is no longer presented by type of expenditure (operating, capital, intervention, etc.), but by public policies (security, culture, health, justice, etc.), which are now called missions. This presentation gives Parliament and the general public a clear picture of all the resources deployed to implement each government policy.

The new State budget architecture



Missions, programmes and actions: three levels structure the general budget

The missions correspond to the main government policies

Parliament votes on the budget by mission. A mission is created at the Government's initiative and may be ministerial or interministerial. **The mission covers a number of programmes**. Parliament may alter the distribution of expenditure among the programmes in a given mission.

The programmes or allocations define the framework for the implementation of the public policies

The programme is the parliamentary authorisation unit. It forms an overall control total for the appropriations within it. It is the responsibility of a single ministry and covers a cohesive set of actions. It is managed by a programme co-ordinator appointed by the ministry concerned.

This **programme co-ordinator** is free to change the distribution of appropriations by action and type: this is the principle of **fungibility**. The breakdown of appropriations presented in the appendix to the budget bill is merely a guideline. **Each programme has its own specific objectives and performance targets.**

The actions define what the appropriations are to be used for

The programme is broken down in an indicative manner into actions. Each action defines more specifically the intended purpose of the appropriations.

◗ Classification of missions

The classification of missions and programmes has changed to take account of the implementation of the 2009-2011 multiannual budget. These changes to the budget presentation template are particularly important in view of the need to stabilise the mission and programme perimeters as much as possible for the three coming years to give the spending departments sufficient visibility and Parliament a clearer picture.

The definition of appropriation ceilings for each mission and each year in the programming period means that the missions can absorb contingencies during the period (principle of self-insurance). This facility calls for sufficiently large missions with a composition that allows for trade-offs between the different programmes' appropriations.

The planned changes to the classification of missions are driven largely by the implementation of this principle:

- Reduction in the number of interministerial missions from eleven to eight to make it easier to decide on the redeployments to be made in keeping with the defined mission ceilings, both when preparing the budget bills for 2010 and 2011 and, where necessary, during the year;
- Merger of two insufficiently large missions within a single ministry to ensure the smooth running of the abovementioned self-insurance mechanism;
- Simplification of the organisation of a number of programmes within the missions.

A vote that differentiates between commitment authorisations and cash-limit appropriations to improve the tracking and coverage of the public spending commitments

All appropriations, regardless of the type of expenditure concerned, **are voted on in the form of commitment authorisations** (capacity to legally commit the government) **and cash-limit appropriations** (cash requirement for the year to cover the commitments made or to be made).

This differentiation between commitment authorisations and cash-limit appropriations provides for a multiannual overview of expenditure (cash-limit appropriation coverage of commitments contracted, opening of commitment authorisations not giving rise to immediate payments, etc.).

A two-way presentation of appropriations

The LOLF provides for a two-way presentation of each programme's appropriations **by purpose** (by actions) and **by type of expenditure** (personnel, operating, capital, intervention, etc.).

Moreover, each programme's **types of expenditure are organised by class and each class is organised by expenditure group**. This distribution of appropriations is provided merely as a guideline, except in the case of personnel expenditure, which is capped in keeping with the principle of one-way fungibility (see the LOLF keywords on page 51).

Personnel expenditure capped by programme

Particular attention is paid to personnel expenditure since **it represents a large proportion of the State budget** and its long-term commitments:

- **It includes all staff remunerated by the government, regardless of their position** and irrespective of whether they are tenured staff or contract staff;
- **It tracks all the costs for each job**: basic wage, allowances and social security contributions, including contributions to fund pension entitlements and welfare and miscellaneous benefits.

Cap on staff per ministry

The budget act lays down a maximum number of jobs per ministry.

These staff caps are expressed in FTE (full-time equivalent jobs). They are distributed among each of the programmes by way of a guideline. A single vote is taken on them.

◗The State budget classification

CLASS 1: Allocations to public authorities

CLASS 2: Personnel expenditure
– Earned remuneration
– Social security contributions and taxes
– Welfare benefits and miscellaneous allowances

CLASS 3: Operating expenditure
– Operating expenditure other than personnel expenditure
– Subsidies for public service obligations

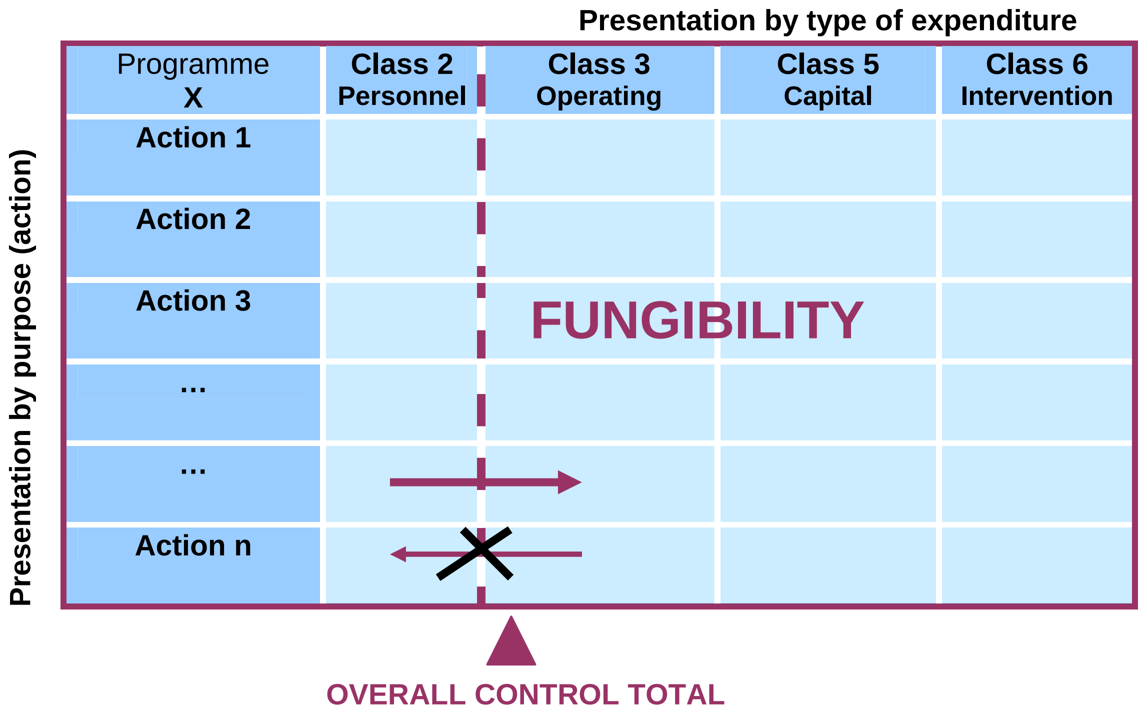
CLASS 4: Public debt interest payments
– Interest on negotiable long-term debt
– Interest on non-negotiable long-term debt
– Miscellaneous financial charges

CLASS 5: Capital expenditure
– Expenditure on the State's tangible fixed assets
– Expenditure on the State's intangible fixed assets

CLASS 6: Intervention expenditure
– Transfers to households
– Transfers to businesses
– Transfers to local and regional authorities
– Transfers to other authorities
– Exercise of guarantees

CLASS 7: Financial transaction expenditure
– Loans and advances
– Equity endowments
– Expenditure on financial holdings

Presentation of a programme's appropriations



A more transparent and comprehensive budget

The LOLF lays down a totally new budget presentation to give members of parliament and, through them, the general public a more accurate and substantiated picture of public spending.

Zero-base budgeting

The LOLF has done away with the "current services appropriation" notion (expenditure virtually automatically carried over from one year to the next).

The administrations now explain in their annual performance plans (APPs) how they intend to use the appropriations and staff made available to them, on a zero-base budgeting basis. They then explain actual outturn in their annual performance report (APR) at the end of the accounting year.

The appropriations are presented on a zero-base budgeting basis, which is an explanation of the appropriations requested by means of physical determinants (number of users, workload, etc.) and financial determinants (unit costs, payroll, etc.).

This zero-base budgeting approach enhances the dialogue between the public finance managers and their administrative authorities on the year's priorities and budgetary needs.

Cost analysis of the actions

A public policy cost analysis is made to give Parliament **more information on the resources actually used by the programme to achieve its objectives** (Article 27 of the LOLF). Expenditure by the programmes and support actions is broken down by public policy programme and action. The same holds true for actions concerning services covered by more than one programme.

To this end, a flow chart shows the links between the actions in the programme and other programmes to make the actual purpose of the expenditure clearer. Taking direct expenditure, a first breakdown is made of actions in the same programme. Then a second breakdown is made of programmes in the same mission or different missions. These breakdowns provide **an evaluation of the total expenditure** put into implementing the public policies.

This evaluation is presented ex ante for appropriations in the annual performance plans and ex post for expenditure executed in the annual performance reports.

Yet seeing as how the notion of expenditure cannot alone present a true and fair view of the government's financial situation, **the full costs** (based on the outlays in the accrual-based general government accounts) are then evaluated and analysed in the annual performance reports. They incorporate the charging of transactions to the accounting year, inventory variations, provisions, etc.

Matching operators with programmes

State operators implement certain public policy components. These operators are mainly public establishments such as the French National Centre for Scientific Research (CNRS), which contributes to the Multidisciplinary Scientific and Technological Research programme. However, they can also be associations, such as AIRPARIF tasked with monitoring air quality in the Paris area.

The operators are included in the annual performance plans to be able to measure their contribution. These plans detail:

- The operator's assignments;
- The programme actions to which the operator is charged;
- The nature of links with the government (administrative authority, service level contract, etc.);
- The operator's objectives and indicators;
- A presentation and justification of the programme appropriations allocated to the operator;
- A presentation of the programme jobs and operator jobs contributing to the programme.

◗ Cap on operator staff

Article 64 of the Initial Budget Act for 2008 stipulates that, "Starting on 1 January 2009, the cap on State operator staff shall be set each year in the budget act." This legislative provision, whose purpose is to improve the steering of public employment in the broad sense while respecting operator autonomy, will therefore be implemented as of the Budget Act for 2009.

The cap on staff covers all the staff employed by the operator or category of operators, with the exception of jobs that cumulatively satisfy the following conditions: fixed-term employment contracts financed entirely by own resources deriving, in particular, from agreements between the financer and the operator.

The presentation of tax expenditure

Tax expenditure by mission

Tax expenditure, or “tax niches”, covers all the provisions providing for dispensations from the taxation norm whose implementation entails a loss of revenue for the government. In practice, these dispensations are tax exemptions, tax breaks, tax credits, reduced rates, etc.

The cost of tax expenditure is estimated at some €73 billion for 2008 (source: 2008 Budget Bill). It contributes to the implementation of numerous missions, five of which account for 76% of the total cost.

Tax expenditure is presented in two ways in the budget documents:

- A sector-based breakdown in each annual performance plan;
- A summary in an appendix to the budget bill (*Ways and Means*, Volume II), which covers all the tax expenditure by type of tax, by mission/programme and by type of beneficiary.

A look at recent innovations in tax expenditure

In a move to report on the use of tax expenditure and assess its cost-effectiveness, the Budget Review and Annual Management Report Act for 2007 presented, for the first time ever, **an evaluation of large tax expenditure**. This experiment chose thirteen “tax niches” for their strong medium-run buoyancy or the extent of their contribution to the policies in which they play a role. Each evaluation was produced to give Parliament and the general public information on the achievement of the objective assigned the tax expenditure and on its cost-effectiveness, i.e. results compared with their costs for public finance. For example, there was the evaluation of the reduced VAT rate on renovations and alterations to old residential properties and the evaluation of the exemption of certain biofuels from the domestic duty on petroleum products (TIPP). This innovative approach was repeated and deepened for fifteen measures in 2009.

In addition, **the structure of the *Ways and Means, Volume II* appendix** was improved with the 2009 Budget Bill to paint a clearer picture of growth in tax expenditure. This appendix on tax expenditure clearly shows the expenditure corresponding to new measures adopted over the year together with the measures phased out.

The new face of public accounting: the government's general financial statement

The Constitutional Bylaw on Budget Acts (LOLF) ushered in a major accounting reform. Accounts are now drawn up in keeping with the new accounting benchmark, based largely on business practice. 2006 was a watershed year for the modernisation of public accounting. Accounts are now clearer and give a better evaluation of assets, making for improved government reporting on its actions.

A broader accounting picture

Article 27 of the LOLF introduces **three-dimensional public accounting**. "The State shall keep cash-basis accounts for its budget revenue and expenditure and accrual-based accounts for all its transactions. It shall also implement an accounting system designed to analyse the costs of the different actions taken under the programmes."

Budgetary accounting is based on the one-year budget rule. It tracks and reports on expenditure when it is paid out and revenue when it is received.

It provides a "cash-based" overview that does not measure investment, depreciation, provisions, inventories and so on. The accrual-based accounting now used for the government's general financial statement (CGE) rounds out the budgetary picture. It is emblematic of public management performance: value-added, oversight and efficiency.

Oversight

Public accounting has been extensively improved, with more information on off-balance sheet commitments, assets and liabilities. The introduction of the government's general financial statement brings with it tighter internal audits and the development of risk analysis within the ministries.

Accrual-based general government accounting has also improved governance within the government departments and furthered parliamentary control of public accounting.

Value-added

The government's general financial statement presents and puts a value to what the government owns (real property, roads, inventories, etc.) and what it has to or might have to pay in the future.

This overview of the State's assets and liabilities makes the government's general financial statement a central tool in the operational steering of public monies, with high value-added for Parliament, the ministries and the general public.

Efficiency

In its coverage of real property and inventories, the government's general financial statement provides more information on assets and fosters the development of more efficient management.

The account's inclusion of the notions of provisions and accrued expenses makes the public finance managers more accountable for the costs and medium-term risks associated with their actions. It also provides a forward-looking picture of government activities and finances. The government's general financial statement helps improve public management.

The new government financial statements

Pursuant to the provisions of the LOLF, the government's general financial statement is drawn up in keeping with a new accounting benchmark based largely on business practice and international public benchmarks tailored to French government particularities.

Its new format makes for a clearer and more concise reading of the government's accounts. The accounting reform has enriched and clarified the financial information. Major advances have been made with the production of comparative data, the presentation of composite tables and the production of explanations in the appendix. So the government's general financial statement has made the separate government financial statements a key source of financial information for Parliament, the public finance managers and the general public.

The government's general financial statement is made up of four financial statements: the balance sheet, the income statement, the cash-flow statement and the appendix.

The **government balance sheet** is presented in the form of a statement of net worth, which shows the difference between assets and liabilities. The assets side presents and puts a value to the elements of national net worth. The liabilities side presents and puts a value to government commitments with regard to external third parties. The government balance sheet presents new information and supplements certain existing elements to satisfy the requirements of the new public accounting standards: tangible fixed assets, inventories, accrued expenses, provisions, etc.

The **government income statement** is made up of three tables that represent all the accounting year's revenue and expenditure: net expenses, net sovereign revenues and operating balance for the year.

The **cash-flow statement** presents cash incomings and outgoings arranged into three expenditure groups: cash flows for operating activities, cash flows for investment transactions, and cash flows for financial transactions.

The **appendix** provides useful information to help understand and make use of the government financial statements. It includes the explanation of and figures on off-balance sheet commitments. For example, it evaluates the civil servant pension commitments and the funding requirements for government-subsidised special pension schemes. The appendix plays a role in the dissemination of transparent information on the government's financial situation.

The benefits of this new information

For Parliament and the general public

The new financial statements, drawn up using the accrual-based accounting system, expand on the analysis of the budget documents submitted for budget discussions, in particular by improving knowledge of the government's financial situation and assets and liabilities.

In addition, as a vital tool for policy cost evaluation, the government's general financial statement provides essential financial information rounding out the annual performance reports (APRs) sent to Parliament. These documents are incorporated into the budget review and annual management report bill and are now crucial elements in the examination of the budget bill.

For the ministries

The new financial statements improve knowledge of public policy costs with their more detailed tracking of outlays attached to each accounting year.

They serve as an aid in management choices. For example, the inventories presented give the ministries a clearer picture of their stocks of real property, inventories, disputes and construction work.

A government operational steering instrument

The government's general financial statement presents an overview of the government's assets and liabilities. This fosters active assets management, tighter accounts control and a more reliable evaluation of the government room for manoeuvre. As a new operational steering instrument, it helps modernise public management.

Better budget documents

For the budget policy debate (June of year Y-1)

- The report on national economic trends and public finance guidelines presents the multiannual public finance strategy and the list of missions, programmes, performance objectives and indicators proposed for the ensuing year's budget bill.

The budget bill (October of year Y-1) provides for all the government resources and outlays for each calendar year.

1/ The documents appended to the budget bill

- **The annual performance plans** associated with each programme include, in addition to the presentation of appropriations by action, sections on performance, cost analysis and the operators associated with the programme.
- **The economic, social and financial report** presents the four-year revenue, expenditure and general government balance forecasts in view of European commitments.
- **With the budget bill**, the Government informs Parliament of the spending control measures it proposes to remain within the ceiling approved by Parliament. It also states the percentage of appropriations that will form the contingency reserve.
- **The cross-cutting policy documents (CCPDs) and the general appendices**, explanatory budget documents known as *"jaunes budgétaires"* because of their yellow jackets, are informative appendices that present a cross-cutting view of the public policies. These appendices can concern a number of missions and programmes or develop a particular aspect of public finance.

2/ The documents presented for the budget bill

- **The report on taxes and social security contributions** tracks growth in all taxes and social security contributions. It may give rise to an in-depth debate at the beginning of the session, before the budget bill and the social security spending bill are examined.
- **The public expenditure report**, attached to the budget bill, presents all the components of public spending, details their economic and demographic determinants, and puts forward the levers for action. Appended to the report is a "budget planning charter", which details the method used to reason each year on a like-for-like basis and explains how compliance with the spending standard is assessed.

With the budget review and annual management report bill (June of year Y+1)

- **The annual performance reports** act as a foil to the annual performance plans. They compare estimates with actual execution in terms of the budget, the performance indicators and real full costs.
- **The State Audit Office's report** on the past year's outturn and associated accounts analyses, among others, the execution of appropriations by mission and by programme.

◗ The annual performance reports

The annual performance reports are appended to the budget review and annual management report bill. They present a programme-by-programme report on the execution of the commitments made in the annual performance plans accompanying the budget bill. They cover the execution of appropriations and the performance, state operator activity and cost analysis reports. They compare actual performance with the stated targets in the annual performance plans appended to the budget bill for the same accounting year.

So the annual performance reports act as a foil to the annual performance plans. Moreover, their layout is identical with a clear comparison of execution with estimates and with the previous year's execution for each item:

- A strategic report signed by the programme co-ordinator;
- A recap of the presentation of the programme;
- For each objective, the targets and actual performance indicators along with a performance analysis;
- A zero-base budgeting presentation, for each class, of movements of appropriations and observed expenditure;
- A presentation of the work actually conducted by the main state operators and the jobs actually remunerated;
- An analysis of the total expenditure and full costs of the programme and its actions.

A performance-based budget with new management flexibility

One of the major challenges of the public management reform is to make the transition from a resources-based culture to a performance-based culture to ensure that each euro is more usefully and efficiently spent. So performance in terms of the capacity to meet targets is at the heart of the new budgetary framework. Consequently, the parliamentary debates on the budget and the examination of execution no longer concern solely the appropriations and their justification, but also the public policy strategies and objectives. A new chain of responsibilities is hence being set up in the administration, giving public finance managers greater room for manoeuvre.

The budget's "performance" component

Each programme is associated with **a strategy, objectives and quantified performance indicators**. These elements feature in the **annual performance plans appended to the budget bill**.

Each indicator presents a **value for the budget bill year and a medium-term target** (one to five years).

The programme co-ordinators commit to expenditure on this basis, under the authority of their respective ministers. **They then report to Parliament on actual performance in their annual performance reports submitted for the examination of the budget review and annual management report act.**

◗ A virtuous chain from annual performance plan to annual performance report

Parliament now has the list of objectives and planned indicators, presented in detail in the appendices to the budget bill, right from the public finance policy debate in June.

The annual performance plans accompanying the budget bill have moved new stage in the budget debate and budget oversight.

The budget review and annual management report act now requires a documented debate on the actual effectiveness of expenditure, since the targets can now be compared with actual results.

The **annual performance report** evaluates the sound utilisation of public monies. As such, it is a key document for the supervision of public action and the preparation of corrective measures.

The purpose of presenting all the financial elements (zero-base budgeting for appropriations and evaluation of tax expenditure) and performance measurements in one document is to improve the cost-effectiveness of public spending.

The Interministerial Programme Audit Committee (CIAP), made up of members of the ministries' general inspectorates of finance, and the State Audit Office audit the indicators to make sure they are relevant, faithful and present a true and fair view.

The three types of objectives in the performance-based approach

For the general public: socioeconomic effectiveness
These objectives express the expected benefit of government action for the general public and the community as a whole.

For the user: service quality
These objectives express the quality expected from the service provided to the user.

For the taxpayer: management efficiency
These objectives express the productivity gains expected from the use of the means employed. They compare work conducted with resources consumed.

The objectives' three focuses

The objectives are defined for the general public, the user and the taxpayer:

Focus	Objective	Example
General public	**Socioeconomic effectiveness**	*Satisfy the upskilling need*
User	**Service quality**	*Reduce legal response time*
Taxpayer	**Management efficiency**	*Reduce the tax management cost*

Part 2

The new fiscal governance

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The new fiscal governance

The entry into force of the constitutional bylaw provided the opportunity to extensively rethink the administrative preparation of the budget. This went hand in hand with changes in the roles of the government's main public finance oversight and steering players.

Parliament was given new responsibilities, especially a greater role in the public debate on public finances and more control of the effectiveness of public expenditure.

The Constitutional Bylaw on Budget Acts (LOLF) strengthened the role of the State Audit Office, especially in auditing and evaluation, and tasked it with certifying the government's financial statements.

The LOLF assigned greater responsibilities to the ministries' public finance managers, top of the list of which are the programme co-ordinator and the financial affairs director. The entry into force of the LOLF also ushered in an extensive financial audit reform.

In addition, it changed and in some cases bolstered the role of the budget ministry directorates as stakeholders in public finance governance and steering.

Last but not least, as of 2009, the implementation of a multiannual budget will concern all the players.

A progressive preparation phase with the introduction of a multiannual budget based on the General Public Policy Review

Preparations for a first multiannual budget for the 2009-2011 period were launched in the summer of 2007, in keeping with the undertaking by the President of the French Republic and the Prime Minister.

The multiannual budget was presented at the July 2008 public finance policy debate and incorporated into the pluriannual public finance policy act examined in autumn 2008. It includes the projects for reforms proposed by the General Public Policy Review (RGPP). The pluriannual policy act secures the course of public finances over the period, by ensuring the control of public spending defined for three years: the three-year budget guidelines represent a collective government commitment reflected by the firm programming of expenditure.

The preparation of the first multiannual budget has extensively changed the budget preparation phase, which no longer covers a single year but each of the three years in the 2009-2011 period. At the beginning of 2008, technical meetings were held between the Budget Directorate and the spending departments to define spending trends. On this basis, the Budget Directorate conducted a medium-term programming exercise for the period.

Following the budget planning sessions held between the Budget Directorate and the spending departments, meetings between each of the ministers and the Minister for the Budget, Public Accounts and the Civil Service reached agreement on a number of points. The Prime Minister settled those points not agreed upon at these meetings. All of the multiannual appropriation ceilings and staff caps thus set for the 2009-2011 period were then laid down as control totals stipulated in ceiling letters sent to each minister in mid-July.

The multiannual budget defined in 2008 serves as a basis for the preparation of the subsequent years' budget bills, which still have to be tabled and examined each year. For example, the preparation of the 2010 budget bill in 2009 will be based on the previously set appropriation and staff caps (firm ceilings for the missions and indicative ceilings for the programmes). It will be restricted to adjusting these ceilings only where this proves necessary, in particular for strictly essential expenditure (debt servicing and pensions), and to firming up the budgeting at budget programme level (see the diagrams on pp. 26 and 27).

The budgeting time freed up will be put to good use to improve knowledge of expenditure and performance in 2009.

A new multiannual budget will be prepared in 2010 for the 2011-2013 period, based on the ceiling defined in 2008 for 2011.

More transparent and efficient budget steering tools

The Constitutional Bylaw on Budget Acts (LOLF) made significant improvements with immediately perceptible virtuous effects right from the administration's budget preparation phase.

The LOLF introduced **three major innovations**, which have greatly improved State budget steering:

- **An upper limit on reappropriations**, now capped at 3% of initial allocations (save exceptions), underpins and sustains the decrease in reappropriation amounts. It also fosters in-year compliance with the spending target passed by Parliament;
- **The setting aside of appropriations at the budget bill presentation stage** gives public finance managers the visibility they need over their appropriations very early on in the game (by distinguishing between a "firm tranche" and a "conditional tranche");
- **The rule of conduct on the use of revenue surpluses** guarantees that the Government and Parliament will give all due and objective consideration upstream to the use of any "pleasant surprises".

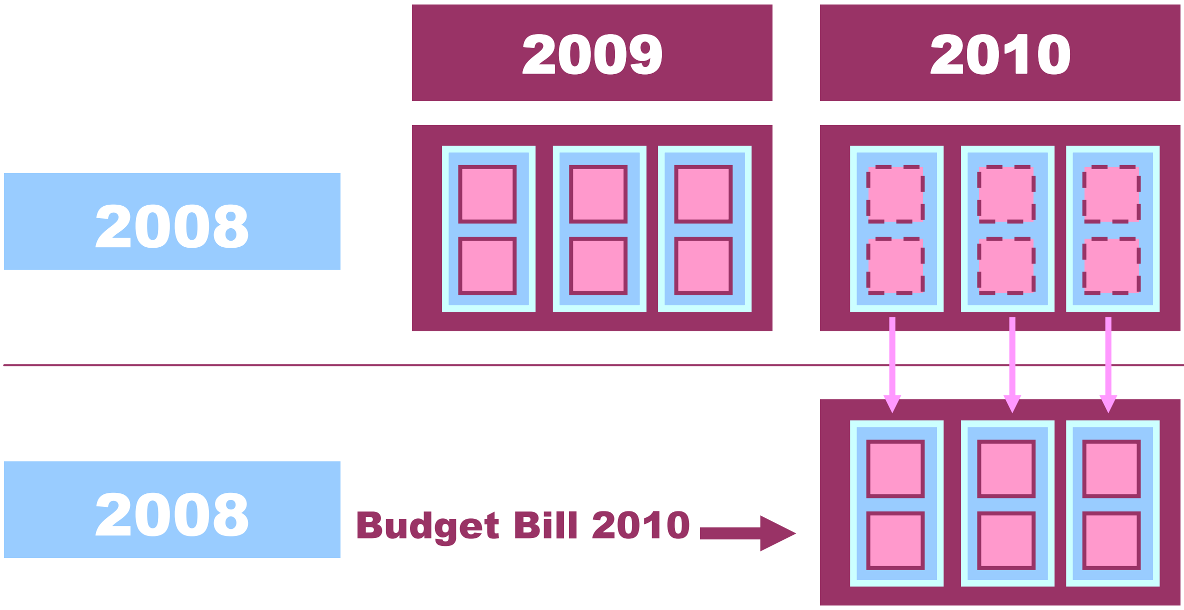
◗ The General Public Policy Review

The purpose of the General Public Policy Review (RGPP) is to thoroughly study all the general government missions to find ways of improving spending while improving service quality. It is both a new way of reforming the State and the keystone in our public finance strategy to stabilise the public accounts and return to a public debt level below 60 percentage points of GDP.

The General Public Policy Review launched in July 2007 provided an in-depth diagnosis of the main public policies. This diagnosis was used to identify a set of reforms to reduce spending while improving the effectiveness of the public policies and the quality of public service provided to the general public. The General Public Policy Review hence gave rise to 337 measures announced by the three Public Policy Modernisation Council (CMPP) meetings chaired by the President of the French Republic from December 2007 to June 2008. On 11 June 2008, the third CMPP meeting wound up the reform announcement phase and the General Public Policy Review entered into the implementation phase for the measures decided on. These measures form the bedrock of the 2009-2011 multiannual budget and will be implemented over this period.

In 2008, a 2009-2011 multiannual budget is prepared comprising:

- **Firm programming** elements that cannot be changed in subsequent years;
- **Indicative programming** elements that can be adjusted.



2008

In 2010, the ceilings per mission and programme are set for the 2011 budget bill, in compliance with the overall control total; the new 2011-2013 programming is drawn up.

Key:

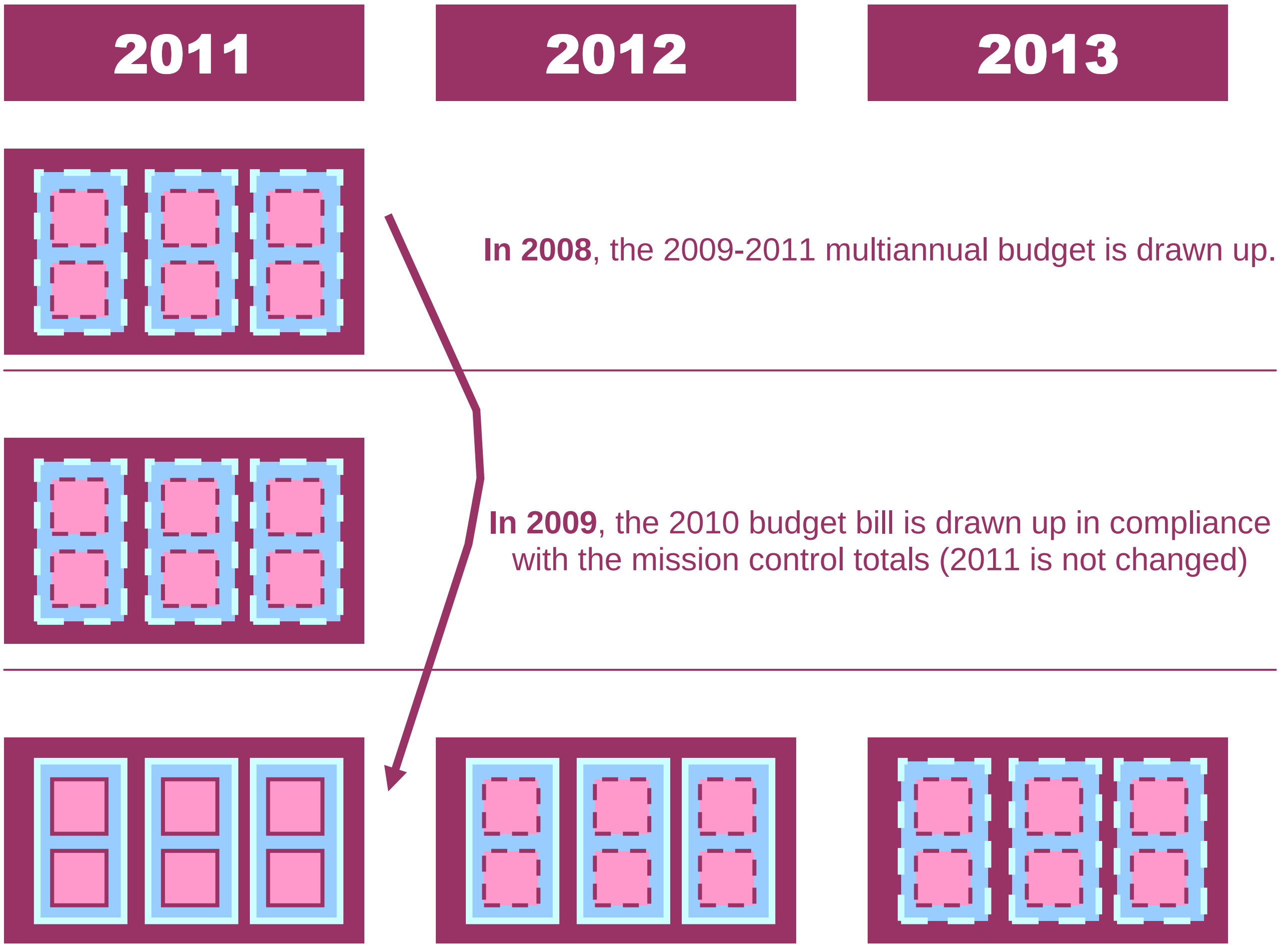
Mission

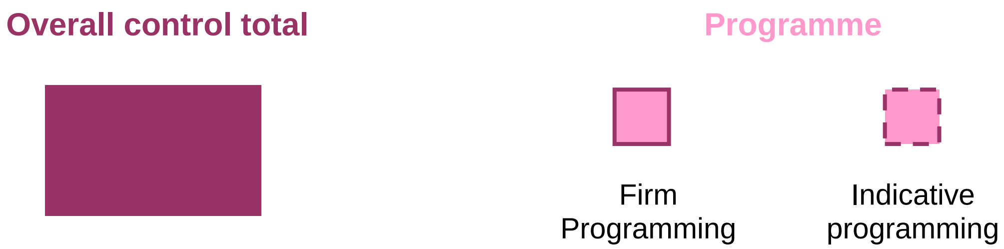
Firm Programming

Indicative programming

Linking up the budgets:

- Every other year, the ceilings per mission are broken down at programme level;
- The last year of the 2009-2011 multiannual budget forms the basis for the next programming (2011-2013).





A constitutional innovation: the pluriannual public finance policy act

The pluriannual public finance policy act notion now has a constitutional foundation: the revision passed by Parliament meeting in Congress on 21 July 2008 introduced this new category of law into Article 34 of the French Constitution.

Better public finance governance

The French Constitution now recognises **the notion of the pluriannual public finance policy act**. In its Article 34, the notion of "pluriannual economic and social policy acts" has been replaced by the more general concept of "pluriannual policy acts" that "define the objectives of State action." A specific paragraph in Article 34 establishes the pluriannual public finance policy acts by stipulating that, "**The multiannual guidelines for public finances shall be established by pluriannual policy acts. They shall be part of the objective of balanced accounts for the public administrations.**"

The purpose of the pluriannual public finance policy act is to improve public finance governance. It satisfies the following goals:

- To define a consistent, overarching, medium-term strategy to broaden the restricted view currently possible with the annual debates on the budget bill and the social security spending bill.
- And hence to detail our aim to put public finances back on an even keel in 2012 and make this formal by means of a vote in Parliament.

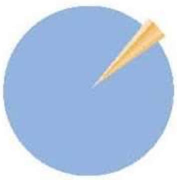
This project was tabled in Parliament in autumn 2008. It presented **the 2009-2012 course for all the public administrations' finances** (central government, social security and local authorities) along with the governance rules required to keep on this course. It also presented the **State's multiannual budget (2009-2011)**, the core instrument of the pluriannual policy act, which includes the reforms decided on following the General Public Policy Review (RGPP).

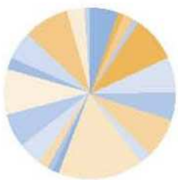
The increase in Parliament’s powers

The first parliamentary debate conducted in keeping with the LOLF principles took place in autumn 2005 for the adoption of the Budget Act for 2006. Parliament was able to use its extended right of amendment to distribute the appropriations within each mission. The extension of the assemblies’ powers also affects budget execution with, for example, the new procedure applicable to supplementary budget appropriations.

A discussion on all the appropriations

The Constitutional Bylaw on Budget Acts (LOLF) has extensively changed how Parliament votes on the budget: members now vote on all the appropriations. A vote is held for each mission.





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

New budget voting procedures

- **The general budget appropriations** are adopted by mission and no longer by ministry and by class;
- **The specific budgets and special fund accounts** are voted on budget by budget and account by account;
- **The evaluations of cash revenue and expenditure**, presented in a cash-flow statement, form the subject of a single vote;
- **The caps on staff**, broken down by ministry and presented in the form of a composite table, also form the subject of a single vote;
- **The cap on State operator staff** is henceforth voted on following the entry into force of Article 64 of the 2008 Initial Budget Act.

Greater possibilities for parliamentary amendments

Under the Constitutional Bylaw of 1959, **Parliament could only reduce or reject new expenditure appropriations** following a cursory single vote on the current services appropriation (94% of appropriations on average).

Under the Constitutional Bylaw on Budget Acts (LOLF), it is still impossible for Parliament to raise expenditure.

However, **pursuant to Article 47 of the LOLF, Parliament may now take the initiative to increase a programme's appropriations provided this does not increase the total appropriations for the mission to which the programme relates**. It may also create, withdraw and alter a programme.

Tighter control of execution and greater investigative powers

Parliament has a number of other levers at its disposal to give it more control:

- **Management of in-year movements of appropriations**, especially via the advance opinion from the finance committees on supplemental appropriation decrees;
- **Extension of the finance committees' investigative powers** (Article 57 of the LOLF), which enables them to conduct all documentary and on-the-spot investigations and all hearings they deem useful;
- **A more precise definition of the State Audit Office's assistance mission to Parliament** (Article 58 of the LOLF).

Parliament, a key player in the implementation of the LOLF

The second report to the Government submitted by Alain Lambert and Didier Migaud in October 2006 took stock of the implementation of the Constitutional Bylaw on Budget Acts (LOLF) with details on the opportunities to improve budgetary practice in terms of management, budgetary procedure and audits of accounts.

Parliamentary supervision has been stepped up a great deal, especially in the finance committees. For example, the National Assembly's finance committee set up an Information Task Force on the Constitutional Bylaw on Budget Acts (MILOLF) in 1999. Every year, this task force organises a number of "monitoring and evaluation task forces" to foster collective ownership of the supervisory function. The purpose of the monitoring and evaluation task force is to check on the efficiency of public spending. At the Senate, finance committee special rapporteurs, from both the ruling party and the opposition, publish a growing number of oversight reports. The committee has also drawn on this experience to produce a methodological budgetary control guide.

◗ The budget review and annual management report act

The budget review and annual management report act is a "reporting" instrument in the full sense of the term. The annual performance reports appended to this bill are required to provide enough information to make an informed judgement about the management of public monies and the results obtained by each programme co-ordinator. Parliament's reports now include a second volume, which presents all the special rapporteurs' observations on the missions and programmes for which they are responsible. Moreover, the discussion on the budget review and annual management report bill is enriched by debates on specific issues in the presence of the ministers concerned, in an extended committee and in public sessions.

The State Audit Office

The Constitutional Bylaw on Budget Acts (LOLF) has extended the role of the State Audit Office by strengthening its links with Parliament, especially in audits and evaluations, and tasking it with certifying the government's financial statements. This assistance role has been part of the French Constitution since the constitutional revision of 2008.

The State Audit Office is the judge of the government's financial statements and the sound execution of public spending. It is made up of a number of chambers each concentrating on different areas of public action to audit the conformity and effectiveness of expenditure. To this end, it defines its schedule of audits independently of the Government and Parliament.

Assistance to Parliament

Article 47 of the French Constitution provides for the assistance mission to Parliament and Government as regards the execution of the budget acts and social security spending acts. This mission is formalised by Article 58 of the LOLF of 1 August 2001 and by Article 1-VIII of the Constitutional Bylaw on Social Security Financing Acts of 2 August 2005.

The State Audit Office helps Parliament supervise the execution of the budget acts, i.e. supervision of compliance with the budget authorisation passed by the two assemblies. In this regard, it submits to Parliament:

- A preliminary report on the previous year's outturn for the public finance policy debate;
- A report on the previous year's results and the management of the budget enclosed with the submission of the budget review and annual management report bill.
- A report designed to inform Parliament when the Government conducts movements of appropriations that need to be ratified by the subsequent budget act (supplemental appropriation decrees).

Since 2002, the State Audit Office has been required to respond to requests for assistance from the chairman and general rapporteur of each assembly's finance committee. It is also bound to conduct any investigation they may request into the management of the services and to submit its conclusions within eight months.

Accounts certification

The State Audit Office is responsible for certifying that the government's financial statements, the accounts of the national general social security scheme bodies, and the combined accounts of the general social security scheme's branches and contribution collection bodies are lawful, faithful and present a true and fair view.

It was tasked with this mission by the LOLF in 2001 for the government's financial statements and by the Constitutional Bylaw on Social Security Financing Acts (LOLFSS) in 2005 for social security. The first certification exercise was conducted on the 2006 accounts.

New public managers

The programme co-ordinators

The programme co-ordinators form **the linchpin of the new public management system**, at the junction between political accountability and management accountability. The programme co-ordinators report to the minister. They help define the strategic objectives for the programme for which they are responsible. They are the guarantors of its operational implementation and commit to the achievement of the associated goals.

In return, they are now allocated an overall control total. This gives them a great deal of freedom in their management choices: they choose where and how to allocate the financial and human resources available to them to meet their objectives.

◗ Who are the programme co-ordinators?

There are approximately 80 programme co-ordinators (general State budget):

- 94% are central administration directors, secretaries general and heads of departments with national scope
- 60% are responsible for a single programme

For example:

- National Primary Education Programme: Director-General for Schools;
- National Heritage Programme: Architecture and Heritage Director;
- Housing Support Programme: Director-General for Planning, Housing and Nature;
- Meteorology Programme: Managing Director of Météo France;
- State Real Property Management Programme: Head of the France Domaine service.

Performance commitments

The minister and programme co-ordinator commit to objectives and indicators presented in the annual performance plans.

These national objectives are broken down and tailored, where necessary, for each general government service to make sure that public action is geared to what the general public, users, and local and regional authorities really need and also to rally the staff around the performance-based approach.

The programme operating budget managers

The programme co-ordinators delegate the management of their programmes by defining **programme operating budgets (BOPs)** placed under the authority of appointed managers.

◗ The LOLF School

The Budget Directorate heads national and regional LOLF School courses in partnership with the Institute of Public Management and Economic Development (IGPDE). Since mid-2005, these courses have been taken by over 1,500 managers, programme operating budget (BOP) and operational unit managers, and service heads and assistants.

The training is designed to give public management players key elements to implement the new LOLF management system and to facilitate the acquisition of the skills and know-how required to meet their new responsibilities.

The government's financial directors

The directors for financial affairs (DAFs) liaise with the programme co-ordinators and the human resources directors to prepare the budgetary decisions and trade-offs.

They 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 co-ordinators' execution reports, and organise the internal controls and audits. They also provide advice, expertise and assistance. They are the appointed representatives of the authorities responsible for financial audits and the ministerial accounts department.

◗ The College of Government Financial Directors, an instrument for interministerial teamwork

Its composition:
The directors responsible for fiscal and financial affairs in each ministry meet once a month with the Budget Director to form the College of Government Financial Directors (DAFs).

Its brief:

- To shape a new relationship between the Ministry for the Budget and the spending departments based more on trust, dialogue and accountability;
- To foster a collective approach to public finance affairs and conduct the co-ordination and steering work to implement the Constitutional Bylaw on Budget Acts (LOLF);
- To serve as a forum for exchanges to improve the budget procedure, public finance steering and government management in the light of the public finance managers' practices.

The Budget Directorate (DB)

The Budget Directorate is tasked, under the authority of the Minister for the Budget and Public Accounts, with steering public finances and preparing the State budget. It ensures that the different public policy choices are consistent with the Government's defined course for public finances, especially as regards the definition of the budget bill. It proposes structural reforms to control public spending and encourages the public finance managers to constantly improve public management efficiency. It has been responsible for the sound implementation of the LOLF since its entry into force on 1 January 2006, and acts as the guarantor for the LOLF vis-à-vis the ministries and Parliament.

New relations with the ministries …

The Budget Directorate has set up a richer dialogue and more co-operative relations with the ministries, which now have greater fiscal responsibility, in order to assist them with their budget programming and help them conduct their reforms and steer their performance-based approach. The Budget Directorate is also responsible for implementing the LOLF concepts and drawing up and ensuring compliance with the fiscal standards: performance-based management, definition of annual performance plans and annual performance reports, zero-base budgeting, development of cost-analysis accounting, budgeting and management rules, tracking of personnel expenditure, etc.

… and with Parliament

As part of its drive to reshape parliamentary work on the budget with a more ambitious work schedule, the LOLF has set up closer relations between the parliamentary assemblies and the Ministry for the Budget. Four consecutive debates are now held every year. The first two take place in the spring and at the beginning of summer: budget review and annual management report act – along with the presentation of the annual performance reports – followed by the public finance policy debate, now merged with the social security spending policy debate, in the autumn. These latter two debates concern the budget bill and, with the Social Security Directorate, the social security financing bill. The Budget Directorate assists the minister at these debates. The Budget Directorate now also provides fuller and clearer budget documents to Parliament to give it more information on the spending determinants and enable it to assess the performance of public action.

◗ Launching multiannual budgeting

2008 saw the launch of work on the first multiannual budget for 2009-2011. This work culminated in the presentation to Parliament of a pluriannual public finance policy act prepared during the 2008 budget procedure. In a first, this procedure gave rise to the definition, with the ministries, of the appropriations and staff numbers for the subsequent three years.

The Public Finances General Directorate (DGFiP)

The creation of the DGFiP, an emblematic reform

The Public Finances General Directorate (DGFiP) is the result of the merger of the General Tax Directorate (DGI) and the Public Accounting General Directorate (DGCP). It was created by the second Public Policy Modernisation Council (CMPP) meeting held on 4 April 2008.

The reform, decided on by the President of the French Republic and implemented by the Minister for the Budget, is emblematic of the State's capacity to modernise. It is an unprecedented merger operation at the Ministry of Finance, since it combines the two largest budget ministry directorates into a single directorate at both central level and in each *département*. A total of 130,000 staff and over 5,000 services are concerned nationwide.

It is also an emblematic merger in terms of its objectives and targets. The creation of the DGFiP will draw on the tax and public treasury service synergies to achieve four priority goals: to improve user service by providing users with a one-stop tax centre for all their formalities, to provide fuller financial and tax advice to local authorities, to step up the performance and efficiency of its services, and to give staff broader career prospects with the recognition of their skills and input.

The DGFiP, a new directorate central to the government machinery

It conducts tax and public management tasks.

It draws up the legislation and regulations on taxation, land registration and real property registration. It defines the taxable base and audits tax returns. It collects revenues, pays expenditure and keeps the accounts for central government, the local and regional authorities, and the public bodies. Last but not least, it manages state property and can provide economic expertise.

The DGFiP, the public accounts and finances operator

The implementation of the Constitutional Bylaw on Budget Acts (LOLF) has brought sweeping change to public accounting and the accounts function steered by the DGFiP. Its role as public accounts and finances operator has been transformed and strengthened.

The DGFiP has a number of priority work focuses. It reforms public accounting procedures to prepare for the certification of the accounts in LOLF mode. In 2008, for the second year running, the DGFiP secured the certification of the accounts. It has revamped the accounts function by redefining the procedures for certain audits and reducing payment lead-times. It also assists with the financial modernisation of the public establishments and government spending channels to make them more efficient.

The Interministerial Programme Audit Committee (CIAP)

What is CIAP's role?

The Government set up the Interministerial Programme Audit Committee in November 2001 to pool the expertise of the different ministerial general inspectorates. This in-house audit structure has two assignments: to help find the best way to implement the LOLF principles for each programme, and to guarantee the relevance and reliability of the information enclosed with the budget bills to ensure that Parliament can hold informed debates and votes.

CIAP is tasked with assessing:

- The coverage and breakdown of each programme's appropriations into actions;
- Each programme's performance strategy;
- Zero-base budgeting for the appropriations;
- The full cost of each action;
- The reliability of the performance results presented in the annual performance reports and the objectivity and comprehensiveness of the rationale put forward to justify deviations from stated targets in the annual performance plans.

How does CIAP operate?

CIAP is made up of one representative member from each ministry inspection or audit body and is chaired by a general inspector of finance. Once a year, in association with the State Audit Office, it draws up and circulates the list of programmes to be audited.

Each audit is conducted by a team of three auditors, one of them being a member of the ministry whose programme is audited. Each team's work culminates in a report that presents the observations and makes recommendations to the ministry concerned to improve the implementation of the Constitutional Bylaw on Budget Acts (LOLF) and the quality of the information the ministry produces.

CIAP's audit procedures are adversarial: the ministry is hence invited to respond to the content of the audit report and, in particular, to give its opinion on the proposals made. CIAP then issues a collective opinion on each audit on the basis of the audit report and the ministry's response.

CIAP's work is conducted by and intended for the different ministries' inspection bodies and, as such, it does not publish them. However, Parliament and the State Audit Office receive the audit reports and opinions from CIAP pursuant to their right of communication.

CIAP moreover publishes an annual activity report in which it presents the main findings of each audit campaign and its proposals on the means required to improve the quality of management under the LOLF and the quality of information provided in support of the budget bills.

The new financial audit procedures

The new financial audit, now called the "budget" audit, originates in a new balance between the public finance managers' responsibility and the supervision of their action, such as intended and laid down by the Constitutional Bylaw on Budget Acts (LOLF). This new balance is seen in a change to the nature and extent of the audit conducted by the budget auditor whose procedures are tailored to the objectives.

Objectives focused on preventing fiscal risks

The idea is no longer to conduct a legally based audit, which was previously the main substance of the audit. Now, auditors check that the government and its representatives in charge of expenditure commit in keeping with the limits and conditions sustainable for the budget, in the present and the future, and in accordance with the parliamentary authorisation.

The auditors:

- Guarantee *a priori* that the budget programming is consistent and sustainable at its different programme and programme operating budget (BOP) levels, and that it is in keeping with the limits imposed by the parliamentary authorisation;
- Secure the budget execution by means of accounts-based monitoring of the ministries' commitments and an upstream and downstream audit of the main acts and procedures giving rise to expenditure commitments;
- Inform, with supporting analyses, all the interested players, minister in charge of the expenditure, Minister for the Budget and Parliament, of the spending levels and determinants and, where necessary, help regulate spending;
- Act as consultants to the public finance managers by means of the explanations and indications they provide in the audit dialogue.

Audit procedures tailored to the issues at hand

New tools

A single manager for an overview of the ministerial spending process: budget and accounting audit departments

Each ministry has a ministerial budget and accounting auditor (CBCM) placed under the authority of the Minister for the Budget by Decree 2005-1429 of 18 November 2005, which establishes these auditors. These auditors are tasked with providing an overview of the ministry's spending processes and assets with a view to improving their security and reliability. The CBCMs:

- Conduct the financial audit within a ministry;
- Act as the public accountant;

- Co-ordinate the devolved authorities responsible for the financial audits;
- Send an annual report on the ministry's budget outturn and an analysis of its financial situation to the budgetary authorities and the chief authorising officer.

Introduction of the post audit and procedural evaluations

The post audit is designed to encourage the public finance managers to keep and track accounts of their commitments to improve the integrity of budget entries and operational programming.

At their basic level, the procedural evaluations check the soundness of the spending departments' organisation. They are not audits. They are designed to explain the origin of serious, recurring budgetary and accounts management anomalies and ultimately to improve budgeting. Procedural evaluation reports may recommend amendments to budget audit regulations.

Audits on a smaller scale

The legislation clearly defines the scope for the auditor's investigations and makes audits of spending departments exceptional, in a departure from a system where the rule was audits that froze the departments for their duration:

- Legal audits are now conducted only in exceptional circumstances;
- Opinions are now the ordinary law instrument for the exercise of audits, unlike an audit authorisation that freezes all activity;
- Prior audits of activities are the exception.

Progressive audit procedures

Following the General Public Policy Review (RGPP), the Ministerial Public Policy Committee decided to reform the financial audit. It launched a pilot test at the Ministry for Culture and Communication to withdraw the advance authorisation and replace it with a commitment committee. The goal was to make this audit less procedural and more strategic so that it properly fulfils its role in the oversight of budget sustainability. This mechanism is based on conducting an in-house budget audit in the ministries in addition to the internal accounts audit.

The idea is to gradually extend these new procedures to all the ministries at a rate in keeping with each ministry's schedule of internal audits.

Part 3

The new public management system

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Government staff mobilised to provide a high-quality, low-cost public service

The Constitutional Bylaw on Budget Acts (LOLF) has extensively modernised the State by giving public finance managers new freedoms and responsibilities. The new public management system is now performance-based and plugged into the realities on the ground in the local and regional authorities and services. It embraces all the administrations in a drive for constant progress that is already paying off for users, taxpayers and the general public.

Modernising public management

All the government staff have rallied to successfully phase in the Constitutional Bylaw on Budget Acts (LOLF). Many benefits are expected from the new public management system, and some of these can already be seen. Yet the radical changes to practices that the new system implies will be introduced gradually.

The benefits expected from the LOLF

The new public management system based on autonomy and accountability is lending new meaning to public action from three points of view.

For government staff

The performance-based approach encourages the services to clearly define their objectives. It **gives new meaning to the administrations' activities**, improving the conditions for the staff to conduct their assignments and supporting them in their work.

It **decompartmentalises the government services**: the LOLF's overall control totals, focus on performance and development of the management dialogue have prompted the administrations to work together to implement clearly identified priorities.

It **enriches the management-labour dialogue** by allowing the unions to take part in the discussion on the distribution of resources and what use might be made of any headroom. The unions are more closely involved in **human resources management**, which is **more dynamic** now that payroll is steered locally.

For public service users

The LOLF furthers the improvement of service quality: it makes service quality objectives performance-based and gives the administration greater flexibility to adjust to specific circumstances on the ground, meaning that the **government services can better satisfy user needs**.

For taxpayers

The LOLF fosters better spending: as the new public management system trusts public finance managers to steer their services with a constant eye on performance, it encourages **savings, productivity gains and redeployment for more effective public spending**.

The benefits expected from the new public management system

PLAYERS

- *Precisely identified*
- *Fewer in number*
- *More responsible*

+

ACCOUNTABILITY

- *Based on performance*

THE BENEFITS EXPECTED

- *Efficiency gains in the services' activities*
- *Teams motivated and mobilised to achieve performance targets*
- *A greater capacity to tailor action to targets and solve problems*

A first review

2006 made the successful transition from one management system to another very different system. It was also the year for **training for all**.

2007 was the year for consolidating the first achievements. The initial assessments – in-house and parliamentary mission evaluations – all pointed up the need to **clarify and simplify** certain procedures. This was based on the observation that the management teams sometimes **found it heavy going and complicated** to superimpose old practices on a new framework.

Although the LOLF framework is now in place, **steps need to be taken to develop the practices**. This move is currently underway and **will pay off in the long term**.

The public finance managers' club

Optimising management in keeping with the LOLF rules

The stated goal of the public finance managers' club is for managers and field experts to exchange best practices and work together to optimise management.

The public finance managers' club is representative of the public management practitioners: it is made up mainly of devolved service heads along with members of the ministries' financial affairs directorates, the Budget Directorate and the General Directorate for the Administration and the Civil Service.

A new chain of responsibility committed to performance

The new public management system is underpinned by a chain of responsibility that guarantees commitment to performance at all levels.

The new chain of responsibility

The **programme co-ordinators** are the guarantors for their programme's implementation and performance at national level. On the ground, they delegate programme management to a programme operating budget (BOP) manager.

Like the programme co-ordinators, the **programme operating budget managers** manage an overall control total of resources (appropriations and staff) and commit to operational objectives to be achieved. They distribute the resources at their disposal among the different operational units (OUs), which implement the activities defined in the programme operating budget.

The operational breakdown of the programmes

Programme co-ordinator	The programme covers appropriations designed to implement one or more actions.
BOP manager — **BOP manager**	The **programme operating budget** is the breakdown of the programme on the ground.
OU manager — **OU manager**	**The operational unit** is the BOP implementation level.

The management dialogue: joint public policy steering and management

Bureaucratic ways of thinking need to take a back seat and allow the management dialogue and co-operation to take over to be able to guarantee the **distribution** of the new freedoms and responsibilities granted the public finance managers and establish flexible and consistent public policy steering.

The management dialogue provides a forum for managers at all levels to agree on the breakdown of objectives and resources and the choice of steering methods.

The management dialogue is held:

- Between the programme co-ordinator and the directors of financial affairs, human resources and so on;
- Between the programme co-ordinator and the programme operating budget manager;
- Between the programme operating budget manager and his or her operational units, the prefects, the regional comptroller, etc.

Defining the main programme management principles: the management charters

In 2006, a number of ministries formalised their programme implementation methods in management charters.

The purpose of the management charter is to **lay down in a single document shared by each link in the chain of responsibility**:

- The scope of each player's responsibility and autonomy;
- The management dialogue tools and procedures;
- The channels for the smooth, transparent circulation of information among the players.

The management charters **cover the ministry, its programmes and their operational breakdown**. They define the rules for working relations between:

- The programme co-ordinators and the different ministerial players with cross-cutting responsibilities (financial affairs directorate, human resources directorate, etc.): these are the ministerial or interprogramme charters;
- The programme co-ordinator and the programme operating budget managers: these are the programme management charters.

The prefect as guarantor of co-operation between the services and the local consistency of public policies

The national public policies implemented at local level need to be **harmonised with the different local priorities**. Under the new LOLF framework, the prefects have therefore been given a greater role in budget and performance matters:

- They are required to issue an advance opinion on each programme operating budget (BOP) within their remit;
- They ensure the consistency of the programme operating budgets (BOPs) with the other local projects and especially with the national strategic action plans (PASE).

Public management directly plugged into the realities on the ground

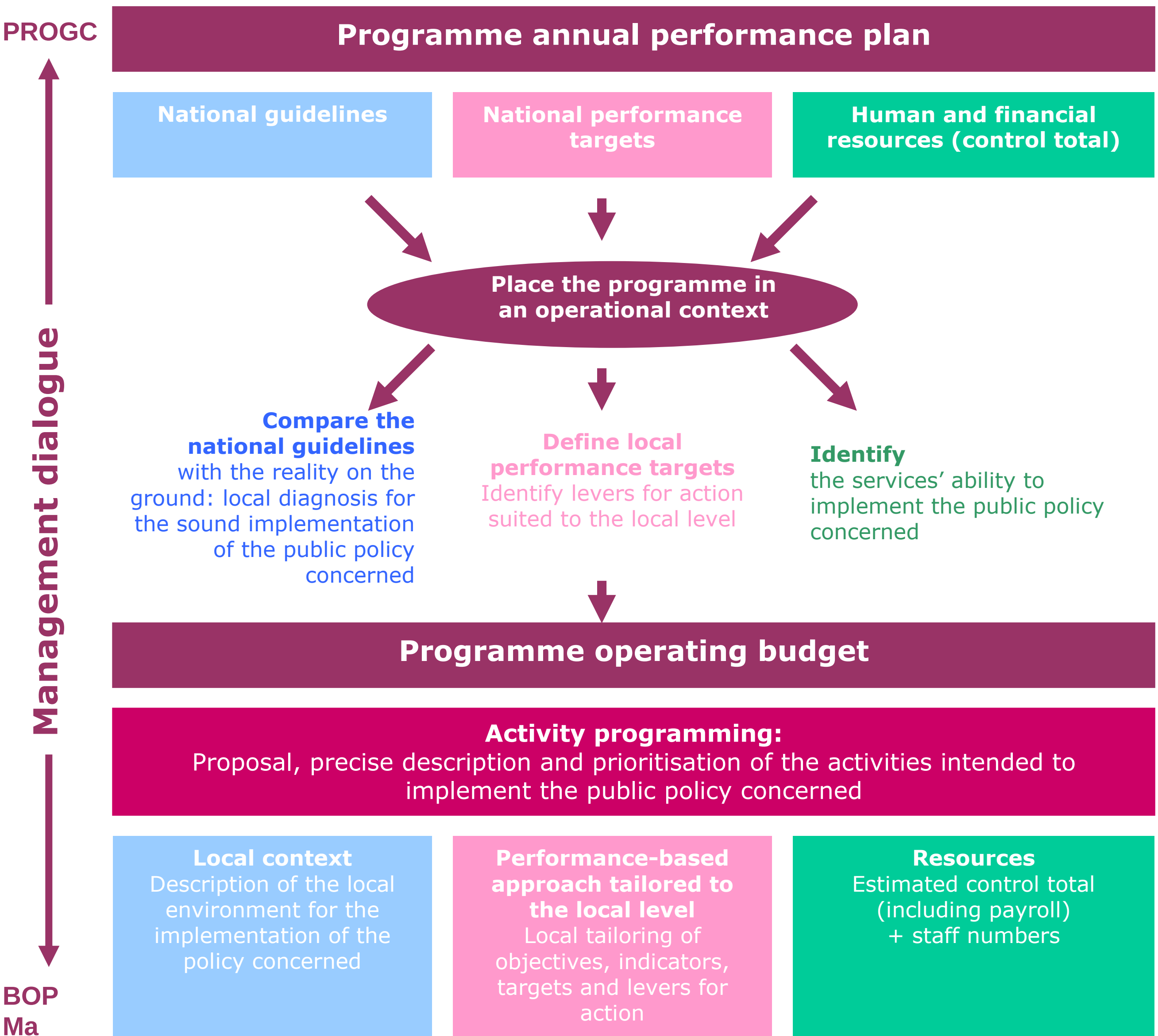
The new management methods introduced by the Constitutional Bylaw on Budget Acts (LOLF) are deployed in the programme operating budgets (BOPs) in a bottom-up approach to users, the general public and local authorities to improve public policy performance and effectiveness.

The programme operating budgets

With the programme operating budget (BOP), the public finance managers on the ground prepare and manage **a local budget in the form of an overall control total**.

The BOP **replicates a ministerial programme** to cover a given scope of activities or geographic area. This means it takes up the elements presented in the annual performance plans (activities, performance and budget) and applies them to a specific operational context.

The BOP managers and their operational units are hence responsible for proposing, **programming and implementing those programme activities that are the most relevant and suited to their specific environment**.



PROGC: Programme co-ordinator
BOP Ma: Programme operating budget manager

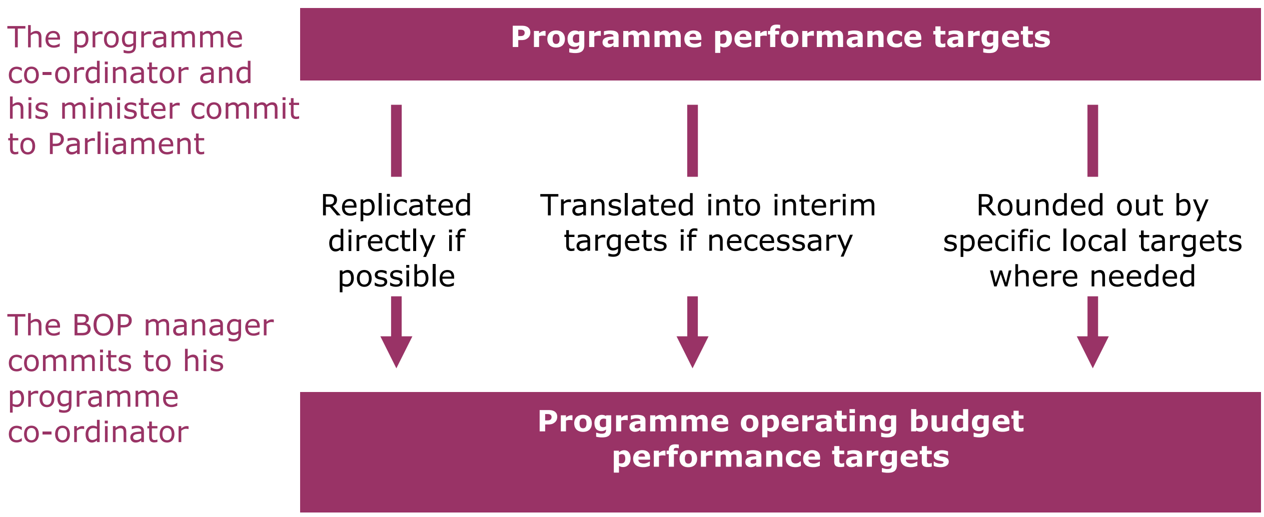
Performance at the heart of the staff's work

The national objectives are broken down and tailored, where appropriate, by each government service to guarantee optimally operational public action and rally all the staff around the performance-based approach.

The local level covers a wide range of unemployment rates, industrial risks, crime rates, youth employment situations, etc. Tailoring the programme performance targets in the programme operating budgets (BOPs) **adjusts the public policies to specific local needs**.

This places the performance-based approach at the heart of the staff's everyday work.

Tailoring the targets on the ground



Financial management performance is also overseen by the Budget Directorate ("public financial management mission"). This entails reducing the number of programme operating budgets (BOPs), shortening BOP examination and appropriation provision lead-times, simplifying appropriation management procedures, and modernising the management dialogue in the ministries.

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◗ The BOP figures

There are approximately 1,900 programme operating budgets, nearly 1,600 of which are at devolved level.

A new public management map

The programme operating budgets are defined at the most relevant level for the programme in question. The choice of level is based on two imperatives:

- **Gearing to the local situation to more effectively satisfy user needs;**
- **A critical mass (financial and human resources) for the efficient steering of national policies at local level.**

The programme operating budgets (BOPs) are positioned:

- **At national level:** for example, for support functions (real property, IT, communication, etc.);
- **At interregional level:** for example, for the National police and Secure goods and services trade programmes;
- **At regional level:** for the majority of the programmes. This is the case, in particular, for the labour, health, national education and agriculture ministries;
- **At *département* level:** for certain programmes.

The LOLF and State modernisation

The campaign for a simpler, clearer and ever-more efficient government system is driven by structural developments, the general public's expectations and the public finance situation.

Flanking the introduction of the new public management system

The programme co-ordinators' forum

The programme co-ordinators' forum gives the co-ordinators an opportunity to meet and exchange experiences. It is headed by the Budget Directorate (BD) and its members gather at two to three major meetings every year. The forum's aim is to give programme co-ordinators a shared view of their role and the developments required.

The management audit, a vital function in the new public management system

The aim of the management audit is to improve the cost-effectiveness of performance, in particular by preparing the management dialogue on objective bases and developing the tools needed to steer performance. This function is organised as a specialised task in the ministries and programmes. The Budget Directorate supports this professionalization drive by heading interministerial management audit networks to share best practices and define a benchmark framework.

The overhaul (or re-engineering) of the budgetary and accounting processes

The aim here is to incorporate the LOLF principles into daily management procedures. This calls for a re-examination of all the existing budgetary and accounting processes.

Back in 2005, a number of ministries decided to make the most of the exceptional opportunity represented by the implementation of the LOLF to simplify their financial procedures before "setting them in stone" in a tool. With the help of the Ministry for the Budget, they reviewed all the budgetary and accounting activities (the chains of tasks, roles of the different players and corresponding organisation) in a necessary step towards the implementation of the new interministerial management software package, Chorus.

The deployment of these "LOLF processes", an interministerial model proposed to all the ministries, now supports them as they gradually change their operating methods and organisational structures to take full advantage of all the benefits of the LOLF, prepare for the transition to Chorus and set up new financial organisations.

◗ Regional public management meetings

As of autumn 2008, the Budget Directorate will be holding regional public management meetings with the assistance of the Public Finances General Directorate departments (covering the general treasury office and tax services directorate) and especially the regional budget audit department.

The purpose of these meetings is to provide local budget news and updates and to discuss financial issues concerning the region. Top of the agenda are the main public management modernisation projects. These include the multiannual budget framework; the new local and regional government services organisation shaped by the general public policy review decisions; and the new management procedures resulting from the re-engineering of the budgetary and accounting macro-processes and the deployment of the Chorus application. These meetings will in turn hold round tables on budget news and updates, chaired by the Budget Director or the Budget Directorate's Assistant Director, and workshops with decision-makers on specific subjects to exchange information and share best practices.

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◗ Providing a professional framework for public finance occupations

In keeping with government guidelines on human resources management and at the request of the ministries' financial affairs directors, the Budget Directorate is steering a project to build a more professional framework for the financial occupations. This interministerial project is designed to improve the recruitment, mobility and skills-sharing of financial players who work on drawing up the budget, on the spending and non-tax revenues chain, and on the associated audits, especially budget audits. The first step in this work is to identify financial occupations to add to the interministerial register of public service occupations drawn up under the auspices of the General Directorate for the Administration and the Civil Service. Concrete proposals for action will be produced by the end of 2008, to be implemented in 2009.

These actions will aim mainly to:

- Identify a financial sector within the government occupations;
- Foster the interministerial mobility of management staff;
- Propose career paths and dedicated training.

The LOLF keywords

The Constitutional Bylaw on Budget Acts (LOLF) has introduced new concepts into the public management system's budgetary and financial vocabulary. Below are some of the basic notions. A full glossary is available on the performance forum website (www.performance-publique.gouv.fr).

Action (as defined by the LOLF)

An action is a component of a programme. It may cover appropriations for a specific target of users or beneficiaries, or a particular government intervention task. In a programme, the breakdown of appropriations among actions is indicative. It is reported on in detail in the budget outturn. If an action concerns a stated purpose, it may have its own objectives and indicators in addition to those associated with the programme.

Annual performance plan (APP)

This document is appended to the budget bill. For each programme, it presents the actions, associated costs, objectives, indicators, results obtained and targets for the coming year; the evaluation of tax expenditure; the justification of growth in appropriations compared with the previous year's expenditure and the current year's appropriations; the schedule of cash-limit appropriations associated with commitment authorisations; and, by expenditure group or type of contract, the estimated breakdown of government-remunerated jobs and the justification of any changes; the appropriations and staff numbers of operators working on the programme.

Annual performance report (APR)

This document is appended to the budget review and annual management report bill. It is provided for Parliament to compare the budget estimates with actual outturn and commitments to objectives with actual performance. Its layout is identical to the annual performance plan.

Budget act

The budget acts determine the nature, sum and allocation of public resources and expenditure in keeping with an economic and financial balance which they define. Parliament examines the budget bill (PLF) from October to December and votes on it within 70 days of the tabling of the bill.

Budget review and annual management report act

The budget review and annual management report act is the law that reports on the financial outturn for each calendar year.

Cash-limit appropriations (CP)

These form the upper limit for outlays able to be paid out over the year to cover the commitments contracted by the commitment authorisations.

Class

The State's budget obligations are broken down into seven classes based on the nature of the expenditure. Each class is broken down into expenditure groups.

Commitment authorisations (AE)

In budgetary terms, commitment authorisations are the medium required to legally incur expenditure. Their total sum forms the ceiling for the commitments authorised over the year.

Constitutional Bylaw on Budget Acts – LOLF

Enacted on 1 August 2001 to come into effect on 1 January 2006, the LOLF replaces the Constitutional Bylaw of 2 June 1959 and lays down the framework for the State's new financial constitution.

Financial inadmissibility

Article 40 of the French Constitution prohibits Parliament from proposing amendments to reduce public resources or create or increase public expenditure. While the LOLF respects this principle, it does allow for Parliament to redeploy appropriations among programmes in the same mission.

Fungibility, one-way fungibility

Fungibility is the freedom that the LOLF gives each spending department to freely use the appropriations for maximum performance in programme implementation.
Fungibility is called one-way since, although personnel appropriations can be used for other expenses (operating, intervention, capital), the other appropriations cannot be used for personnel expenses.

Indicator

The indicator is quantified. It puts a figure to the performance progress targeted and achieved.

Mission (as defined by the LOLF)
A mission covers a set of programmes contributing to a public policy. A mission can only be created by a budget act provision at the government's initiative. The mission forms the voting unit for appropriations.

Objective
The LOLF stipulates that each programme shall have stated objectives, defined in the annual performance plan, that reflect its public performance improvement priorities. The objectives are measured by indicators.

Programme (as defined by the LOLF)
A programme covers the appropriations designed to implement an action or a cohesive set of actions by a given ministry. A programme has specific objectives defined on the basis of public utility purposes and targets. These objectives are evaluated. A co-ordinator is appointed for each programme.

Programme operating budget (BOP)
The programme operating budget covers appropriations in a programme made available to a designated manager for a given remit (part of a programme's actions, for example) or a given geographic area (region, *département*, etc.).

The BOP has the same attributes as the programme: it forms a control total of resources associated with objectives measured by performance indicators. The programme operating budget's objectives are defined as subdivisions of the programme objectives.

The government's financial statements
The government's general financial statement is made up of the balance sheet, the income statement, the cash-flow statement and the appendix, which includes an evaluation of off-balance sheet commitments. It is now presented in keeping with accrual-based accounting principles (like the business world) and is certified by the State Audit Office.

Zero-base budgeting (JPE)
Explanation of all the appropriations and personnel requested (annual performance plan) and utilised (annual performance report) for each programme. The LOLF has phased out the "current services appropriation" notion, which carried over expenditure virtually systematically from one year to the next.

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Find out more

The performance forum

www.performance-publique.gouv.fr – the benchmark website on public finances and performance.

The learning tools available on the website:

- Cyber-Budget: the budget simulation game;
- BudgetFlash: all about the State budget;
- BudgetScope: how the State budget is put together;
- LOLF-Flash: all about the LOLF performance-based approach (available as of October 2008).

The *Budget Info* e-newsletter with news on the Budget Directorate and its major projects.

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