



# Budget Reform

## and State Modernisation in France



# A clearer Budget and a more reactive Administration

## A *Programme* budget structured on important political aims

France is breaking with the tradition of expenditure-oriented budgets by drawing up a *Programme* budget based on a three-tier structure. The *Missions* correspond to the State's major public policies. Each *Mission* comprises a set of *Programmes* to which appropriations are allocated and broken down into *sub-programmes* (*Actions*) that together constitute the operational means of implementing the *Programme*. The previous budgetary structure based on 'budget chapters' obscured the ultimate aims of budget appropriations and the cost of administrative policies and structures. By breaking down the budget into public policy objectives, the State's missions and public service goals become fully transparent.

## Globalisation for more flexible management

Up to now, ministers and their management services received their appropriations through a large number of separate budgets, one for each self-contained 'chapter'. In the new budgetary system, appropriations may be freely apportioned among the *Programmes*, and their breakdown according to *sub-programmes* and type of expenditure is now purely indicative. This globalisation will make for much more flexible management, because the people in charge of individual *Programmes* will be able to reallocate appropriations between *sub-programmes* or types of expenditure. Because of its very long-term effect on public finances, personnel expenditure is the only exception to the globalisation principle; it cannot be topped up with other appropria-

tions and payrolls (amounts and numbers of personnel) will be capped. While the current system leads certain spending departments to try and use up all their appropriations with a view to obtaining the same amount the following year, the appropriation carry-over regime will be relaxed to encourage multi-annual management of appropriations. It will now be possible to negotiate the carryover of up to 3% of any appropriations, and each year ministers will have commitment authority for a multiyear timeframe in addition to their spending appropriations. The system will operate on a commitment accounting basis, which will make multiyear *Programme* management more transparent.

## Departments will have greater autonomy and responsibility

Henceforth there will be a clearly identified *Programme* managers for each *Programme*, both at national and local level. This is the spirit in which a veritable 'chain of responsibilities' is being set up in the French administration. Each national *Programme* breaks down at a local level into *Operational Budget Programmes* (OBPs). OBP spending departments are allocated a global budget structured along the lines of the national *Programme* budget, and have a great deal of latitude in how they allocate appropriations according to the aims assigned to them, while at the same time making allowances for local specifics. Local spending departments will now play a substantive part in managing State policies within the framework of a centrally defined strategy. This new relationship between central Government and decentralised departments calls for goal-oriented management and dialogue.

## Greater transparency: the example of the Justice budget

### Then: 30 chapters

#### Title III – Service resources

- ▶ Personnel – service pay
- ▶ Retired personnel – pensions and allowances
- ▶ Active and retired personnel, welfare costs
- ▶ Departmental equipment and operations
- ▶ Operating subsidies
- ▶ Sundry expenditure

#### Title IV – Public intervention

- ▶ Political and administrative interventions
- ▶ Social programmes – aid and solidarity

#### Title V – State investment

- ▶ Administrative and other facilities

#### Title VI – Investment grants awarded by the State

- ▶ Cultural and social facilities

### Now: 6 *Programmes*

Administrative jurisdiction

The judicial system

Prisons and correctional administration

Legal protection of youth

Free access to justice and legal aid

Backing for judicial policy and related organisations

*The new budgetary architecture and ensuing management methods ensure greater transparency in the State's actions and public finance-related issues.*

# The Administration engaged in Management by Performance

## Prior commitment to performance goals

In exchange for the high degree of autonomy they now have, *Programme* managers have to be fully committed to their goals and be accountable for their management acts via results indicators and target values. Three criteria are used to measure performance: social and economic effectiveness, the quality of service, and efficiency. Every year, ministers and *Programme* managers will have to make commitments to achieve specific results through an Annual Performance Plan (APP) appended to the Budget Act. The APP will more particularly state *Programme* appropriations, the main goals relating to this policy, performance indicators, the expected results and related tax expenditure. Including financial data and performance measurements in the same document will make for better assessment of the public policy performance and efficiency.

## Accountability after the event

Up to now, there has not been enough focus on the effectiveness of public spending, and more emphasis was placed on complying with spending authorisations. With the introduction of global *Programme*-oriented budgets, spending departments will be accountable to Parliament for their management decisions, their actual expenditure, their management of human resources and the levels of performance they achieve according to the resources they have been allocated. When the budget has been executed, these points are included in an Annual Performance Report (APR) appended to the Budget Review Act. The APR is modelled on the APP to make it easier to compare authorisations with execution. Finally, the APR for the past year has to be submitted to Parliament and reviewed before the following year's Budget Act is passed. This timeframe, which requires a review of how the previous budget was executed before the next budget can be debated, constitutes the mechanism known as the "virtuous chain".

## A new public accounting system

Currently, public accounting in essence tracks execution of expenditure and revenue on a cash basis. To bring itself in line with budgetary reform, the French state is setting up a new accounting system incorporating the existing cash-basis methods, the accrual accounting model as practised by business and management accounting for *Programme*-cost analysis purposes. The new accounting standards, which draw on corporate accounting and are adapted to the specifics of the State, will give Parliament greater accounting transparency. With this new budget and accounting classification, the French administration has found the means to measure the cost of its public policies and assess its asset base (land, property, debts etc.). Lastly, as from 2006, the State's accounts will be certified by the State Audit Office.

***By requiring Programme managers to link their actual results to the resources allocated, the French administration seeks to make public spending more efficient.***

### The three lines of performance analysis

| Standpoint | Goal                                     | Sample goal                              | Sample indicator  |
|------------|--|--|---|
| Citizen    | <b>Social and economic effectiveness</b> | Health: cut breast cancer screening time | Average time elapsing before breast cancers are detected                        |
| User       | <b>Quality of services provided</b>      | Police: cut police intervention time     | Average time between police forces being alerted and their arrival on the scene |
| Taxpayer   | <b>Efficiency</b>                        | Roads: reduce maintenance costs          | Average maintenance cost per kilometre (A-roads)                                |

# A greater Role for Parliament

## Extended powers of amendment

For the parliamentary budget vote, the traditional distinction between the 'current services appropriation', namely the appropriations base required to continue State action on an unchanged basis, and 'new measures' no longer holds. From now on, members of parliament will examine all the budgets and pass them to the first Euro every year.

The voting unit in Parliament will now be the *Mission*, that is, a consistent set of *Programmes*. The MPs' powers of amendment are thus greatly extended, because they will now be able to reallocate appropriations between the various *Programmes* making up a particular *Mission*.

Furthermore, with the budget policy debate in the spring, Parliament will now be playing a greater part in outlining public finance strategy and setting priority objectives for the next Budget Act.

## Stronger links between budget execution and parliamentary authorisation

In order to strengthen the link between budget execution and parliamentary authorisation, supervision of movements of appropriations in the process of being administered will be stepped up. Most of these movements – credit transfers, carry-overs, advances or cancellations – are subject to prior notification of Parliament and are capped, the ceiling being a percentage of the initial appropriations.

That notwithstanding, in order to preserve the balanced budget as defined by the Budget Act, Parliament has recognised Government's right to cancel up to 1.5% of the initial appropriations by decree, thereby affording Government the benefit of a mechanism for fine-tuning budget execution.

## Greater access to information and control powers for Parliament

The constitutional bylaw on the Budget Acts institutionalises the *budget policy debate* introduced in 1996 at the Parliament. This debate is the opportunity, before the debate on the Budget Review Bill, for an initial review of the implementation of the previous year's Budget Act and a multi-annual approach of the budget policy.

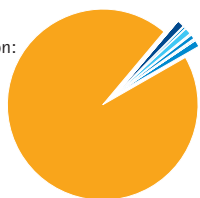
More stringent control over current credit movements will increase the impact of Parliament's budget authorisations. The Finance Committees of both assemblies will have greater investigative and hearing powers. They will be able to conduct on-the-spot investigations on particular matters and refer them to the State Audit Office as part of their control and assessment remit.

***Restoring the balance of power between Government and Parliament will give the vote on the Budget Act all its meaning.***

### Parliament's greater involvement in public finance management

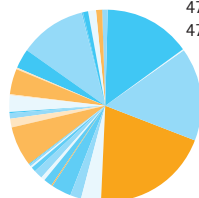
#### Up to 2005

Current services appropriation: only 1 vote



94% of appropriations are renewed virtually automatically from one year to the next (current services appropriation) without being brought into question. The debates focus essentially on only 6% of the general budget.

#### From January 2006

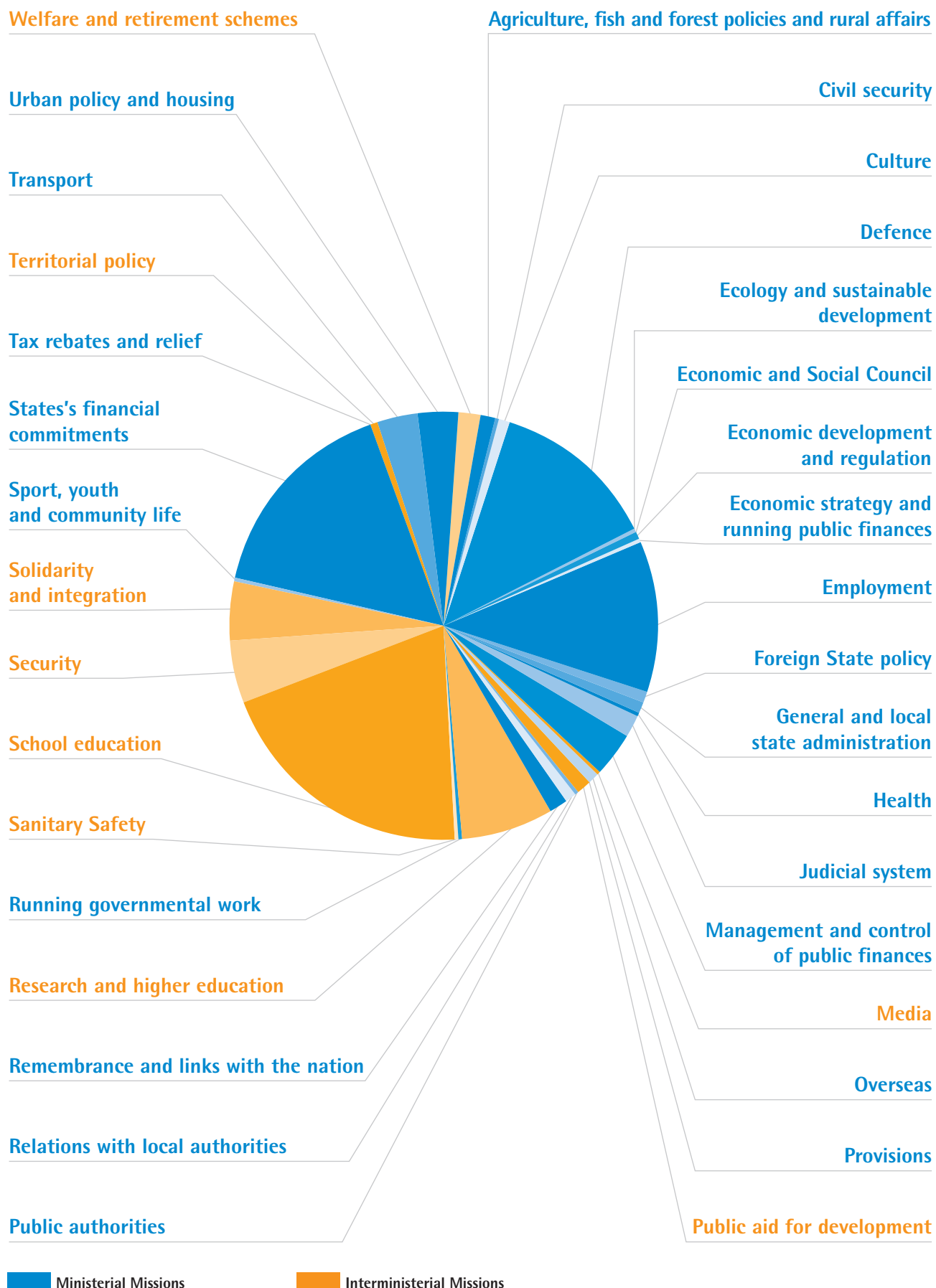


100% of the appropriations are debated in Parliament, for each *Mission*.

New measures for each ministry: 97 passed in 2003

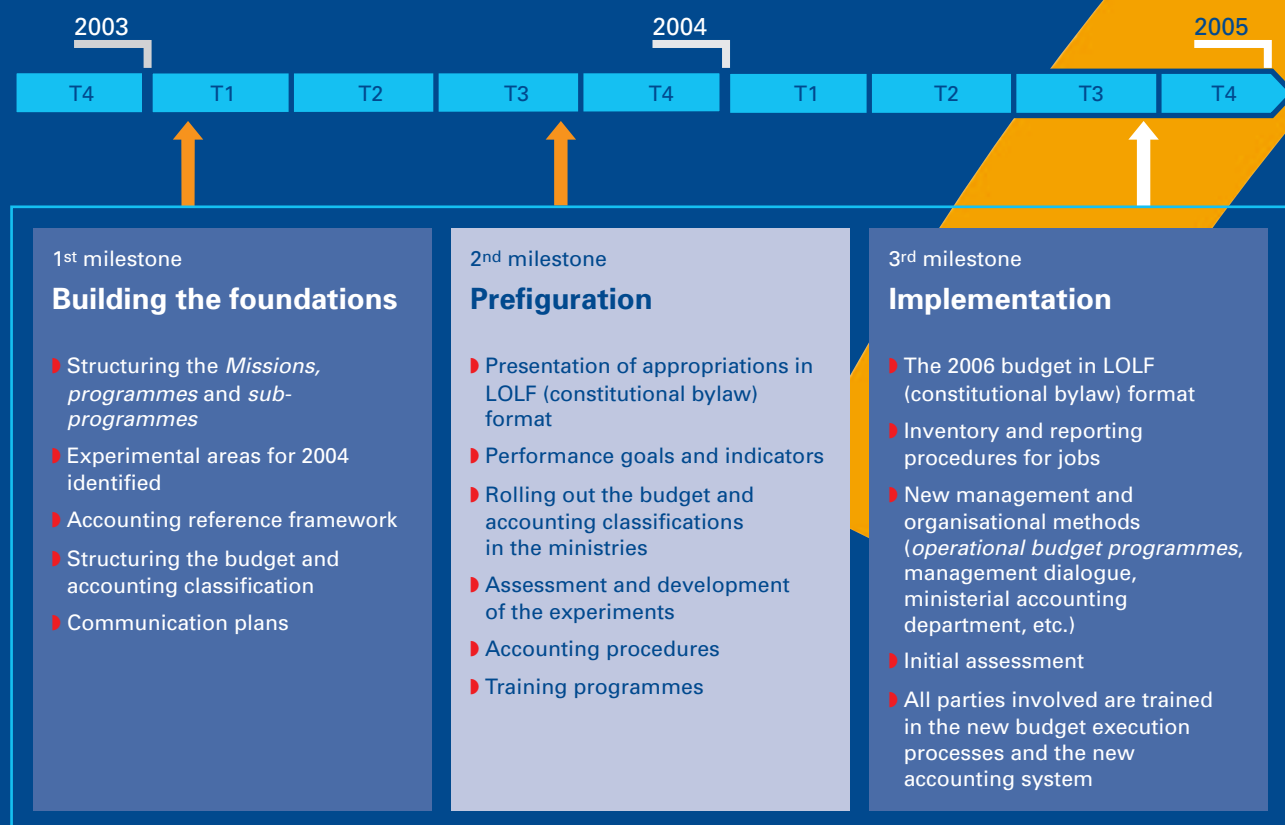
47 Missions  
47 votes

# Missions of State Budget in France (2005)



# Implementation of the Constitutional Bylaw of 1<sup>st</sup> August 2001

Implementation of the reform will be phased over three stages



## Contacts

Ministry of the Economy, Finance and Industry Internet site: [www.minefi.gouv.fr](http://www.minefi.gouv.fr)

moderfie Internet site: [www.lolf.minefi.gouv.fr](http://www.lolf.minefi.gouv.fr)

moderfie hot line: [com@moderfie.finances.gouv.fr](mailto:com@moderfie.finances.gouv.fr) / + 33 (0) 1 44 43 77 50



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BUDGÉTAIRE POUR  
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