

# **Program Budgeting in France : Implementing the Budget reform under the « Organic Law on Laws of Finances » (LOLF)**

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*PEMPAL WORKSHOP,  
SLOVENIA, February 2012*

# Some basic data on France

- 550 000 m2, population: 65 million
- GNP : 2000 Billion € (2010), public debt 83%
- General Budget of State (2012): 376 Billion € (nearly 20% of GNP)
- Deficit of General Budget (2012) : 74 Billion € (around 4% of GNP)
- Civil servants : 3 independant branches (altogether 5,3 million persons)
  - **State civil servants** = 2 350 000 (2 000 000 in Ministries, 350 000 in Administrative Agencies)
  - All kind **Local Authorities** civil servants = 1 800 000
  - **Hospitals** civil servants = 1 100 000
- State civil servants in Ministries : 1 975 000 equivalent full-time (2012)
  - 4% in Central Departments of Ministries, 63% in Regional or local State Services, 29% in schools and Universities, 4% in other Public Bodies
  - Total Personnel costs in French Budget 2010 : 120 Billion €.

**The Program Budgeting reform only applies (up to now) within State Budget boundaries and to the 2 000 000 civil servants paid by ministries.**

## The strong specificities of the French reform

- A Parliamentary initiative to cut down historical budget opacity, and an unanimous vote of a new Organic Law in 08/2001, to enter in force in 01/2006
- A completely new feature designed, mixing three revolutions in a probably world unique « *Big Bang style* » approach:
  - \* a revolution in the Budgeting concepts (and documents for Parliament)
  - \* a revolution in the public management principles
  - \* a revolution in the public accounting (adding two new dimensions to a renewed budget accounting: (i) a general accounting on accrual basis (to be certified by Court of Accounts) and (ii) an analytical costs accounting.
- With the refurbishment of main information systems
- With a dedicated device to implement the reform
- With a specific auditing process of implementation and five first years of budgeting under the new system

# A revolution in Budgeting concepts (1)

A new Budget Classification by public policies, instead of nature of expenses: public money is directly dedicated to public policies, identified as « Programs » (132 Programs gathered in 32 « missions »)

Each Ministry's Budget is split into « Programs » (2 to 7), each one being dedicated to a comprehensive public policy in which the ministry is strongly involved, apart one « support Program », bearing the common expenses. Not a single € of the State Budget may be allocated nor spent outside a Program (*except interest on public debt*).

No Program can be interministerial; if more than one ministry is involved in a large public policy, each of them may have its own Program dedicated to this policy, for covering its powers and responsibility in that common field, and they have to coordinate.

The Program is the unit for credit allocation to ministries by Parliament: Credits allocated to a program cannot be spent for another one; meanwhile, within a program, there is a high degree of freedom for expenditure choices, in order to allow the Program to reach its forecasted performance: the sole commitment is no increase in the Personnel expenditure compared to voted credits for Personnel.

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## A revolution in Budgeting concepts (2)

- Each Program is structured into « Actions » (1 to 10), which represent the various aspects of the public policy beared by the Program (and sometimes a « support Action » for common expenses of the Program). When allocated to a Program, credits are allocated to the Actions of this program, in a breaking down that is indicative, and not committing.
- Demands for credits are presented and justified to Parliament by Program/Actions, in a matrix « Action/Nature of expenditure » ; the nature of expenditure are: Personnel, Operating expenditures, Transfers, Capital expenditures. The new accounting system reflects this classification.
- The actual costs of Programs and Actions are computed through analytical accounting (at the Action level): common costs beared by the « support Program » of each ministry or by « support » or « polyvalent » Actions of « Policy Programs » are broken down with appropriate keys between « Policy Actions » of « Policy Programs ».

# A revolution in Public Management

- Each Program is (under the Minister's authority) prepared, presented, operated, and reported to Parliament by a « Program Manager » (PM), fully responsible for deciding on all aspects of management of the Program and conducting the public policy involved. Far from dealing only with the budgetary presentation, the **reform has mainly a managerial dimension**. Its first goal is to increase performance of the public spending.
- Performance achievement is the key factor of the LOLF reform. Each Program Manager must precise in its Annual Performance Project (PAP) presented in October N-1, its needs for credits for N, associated to its Strategy, its Priorities, its Performance Objectives, and, to measure yearly the progress accomplished, its Performance Indicators and Targets. All results must be described to Parliament in its Annual Performance Report (RAP), in June N+1.
- Each PM relies on a « Responsibility Chain » involving some key managers he chooses within the central administration and the regional services, in charge of the public policy beared by its program. Those « 2<sup>nd</sup> rank responsables », named « Operationnal Program Budget Managers » (OPBM), receive from the PM a part of the Budget allocated to the Program, and commit themselves to achieve their own Performance targets, set up through a « Management dialogue » with the PM, in coherence with the Program Performance Objectives.

# Implementing the Reform

- A Project Executing Directorate (Directorate for Budgeting Reform – “DRB”) to implement the LOLF, created within the Ministry of the Economy and Finance in March 2003, to operate till the end of 2007, representing the first full budget cycle under the new system.
- The DRB’s assignments:
  - Define new rules and methods for putting into practice all the budgetary and accounting provisions contained in the LOLF, and establish all documentation;
  - Steer and conduct the LOLF implementation work in all ministries in liaison with the public administrations
  - Define and co-ordinate the interministerial training and communication policy for the budgetary and accounting reform
- A forty-person project team
  - Chaired by ex Budget “n°2”, gathering mainly experts, most of them young talented executives, with a wide range of skills, positions and backgrounds (Budget Directorate (DB), Public Accounting General Directorate (DGCP), inspectors and auditors, and contract staff), and a few external consultants (project steering assistance)
  - Three experts departments : Budgetary reform, Accounting reform, Training and communication
  - Three common tasks : Labour costs, Process reengineering methods, Accounting and financial Information Systems.

# Main steps of implementation

- The *LOLF roadmap*: an interministerial timetable structured by task:
  - 1) New budget documents (PAPs and RAPs)
  - 2) New ministerial management methods
  - 3) A new accounting system with its contributions to management
  - 4) Implementation of the 2006 IT target (changes to the information systems)
  - 5) Process re-engineering (e.g.: expenditure process and control method, Procurements, Personnel issues, more widely all process involving actors in their new powers...)
  - 6) Managing the change (communication and training)
- + Special *LOLF roadmap* for the devolved services
- An annual report to Parliament on the preparations for LOLF implementation (pursuant the Budget Law for 2003).



# The working methods for implementation

- DRB's practice based on an operational rather than legal approach, by consensus-building with the ministries, in a monthly steering committee of all public financial affairs directors, with validation of proposals by a Ministries Steering Committee;
- Building relations with the devolved services, through reform steering committees in each of the 22 Regions; **implementation process was at the same time “top-down” and “bottom-up”**.
- A specific project team for the Budgeting and Accounting Information System.
- Work based on a process of pilot testing and extension, pooling best practices (500 services tested before launching, 30 000 officials trained, by 800 “ambassadors” and 300 experts-instructors; training tools – guides- published, and yearly updated, by DRB on all main issues of Budget, Management, Performance devices, Personnel expenditures, Accounting, Costs, Investments, etc.; dedicated internal websites on the main topics and experiments feedback);
- As soon as PM have been appointed by Ministers, organization of quarterly meetings, called “Program Managers Forums” to set up a common vision of this function and address all managerial questions and look in common for best answers.
- An Interministerial Programs Audit Committee (CIAP) established from 2002, launching audits from 2003 to help implementation. Nearly 80 audits of Program Projects realised before end of 2006 and 150 up to now.
- The Court of Accounts and Finance Committee of Parliament associated to main choices.

## Key issues and challenges on the implementation :

- To train tens of thousand of people to operate a complete switch in budgetary and management process, with new tools and new roles for most of actors, without keeping remains of old ones; the reform should not be confined within budget experts, but widely spread over all managers and working teams in all ministries;
- To accept a significant increase in workload on first years as much more information has to be produced, e.g. to justify the credits, or justify the objectives/indicators), without falling into bureaucratization (not losing the guidelines and the necessity to make it as simple as possible);
- To built in due time available and accurate information systems providing all necessary management data (on expenditure and performance);
- To develop a new approach of financial control by Ministry of Finance, focusing on budget sustainability of Programs proposed by PM and OPBM instead of the regularity of expenditures (to be checked by a new internal control to be set up within each ministry).

## What has been good and weak in implementation ?

- Good :

- The implementation process itself : DRB's strong leadership in a very cooperative way towards all Ministries, involvement of all levels (national, regional, local, operators) within each Ministry by setting up working groups and steering committees under the General Secretary supervision; all issues could be raised and discussed before decision;
- Auditing process by CIAP in all ministries while implementing
- The training documentation on all issues, elaborated by working groups under DRB's supervision and widely spread and commented;

- Weak:

- Difficulties in building the new budgetary and accounting system have been under-estimated; only a temporary system could be operational in 2005-2006, with limited functional capacities;
- The Performance device was not satisfactory at first : too many indicators, many of them dealing with activity instead of performance, figured data not available...
- The Managers new latitude on expenditures has been restricted by practice rules set up by DRB for caution concerns on overall budgetary results, which proved disappointing (« *all this efforts for that result!* »)

# Summary of controlling and auditing scheme

The basic “internal control” and “management control” to be set up by the program managers, OBP’s managers, and operating units managers (possibly delegated to each Ministry’s finance director)

The new “budget control and accounting service” within the ministers but part of finance ministry’s hierarchy

The ministry’s internal audit service (partly at program managers’ disposal)

The “ Interministerial programs audit committee” (CIAP) (2001-2011)

- 17 members from audit departments of all ministries
- a unique audit guide (topics : all aspects of the LOLF, including the managerial process and the performance device quality),
- audits realised by mixed audit teams of three auditors seconded for each mission by audit departments (only one from audited ministry)
- each audit (3 months) concluded by an audit report by the audit team, answers to proposals by Program Manager, final statement by the Committee, altogether sent to audited Ministry, Ministry of Finance, the Parliament finance Committees and the Court of Accounts;

The Court of Accounts yearly audits and reports to Parliament on Programs and Performance (and separately report on certification of general accounts)

## Key issues and challenges on the principles : were are the problems now ?

- The design of the « Programs Boundaries » results from arbitration between Managers powers and is not always fully in line with the public policies concerned. More than 1/3 of Program boundaries have been modified from 2006 to 2011; some more should be; there is a need for better adjustment between public policies and administrative structures.
- The balance between two qualities required for the Objectives, (i) to be linked to the leverages of the Program and (ii) to be significant from the point of view of the users, may be difficult to arbitrate. Here lies the difference between « *public managers'performance* » and « *public policy evaluation* » concepts.
- The reliability of some Indicators is not sufficiently assessed, and the comments on their results given in RAPs by the program Managers mostly do not yet reach the quality required;
- The management dialogue between the different levels of operation of the Program (national, local, external Operators) is not yet sufficiently performance-oriented to break down properly the indicators at operational level;
- The Budget crisis may lead the Ministry of Finance to impose measures restraining the management freedom of the Program Managers, with the risk of weakening the confidence in the fundamental « freedom/responsability » principle.

Thanks for your attention