

COUR DES COMPTES

# Annual Public Report

## Executive Summaries

2011

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# Table of contents

## Executive summaries of volume 1:

### Comments from the financial courts

<b>1</b>	The 2010-2013 plan .....	9
<b>2</b>	Tax expenditures: A major budget issue .....	12
<b>3</b>	A few tax expenditures dedicated to the development of companies and jobs .....	15
<b>4</b>	Employment bonus: tax expenditure with increasingly indeterminate objectives .....	18
<b>5</b>	Retirement reserve fund (Fonds de réserve des retraites or FRR) : Abandoned ambition, risky reorientation .....	21
<b>6</b>	The French compensation system for partial unemployment: An insufficiently used tool .....	24
<b>7</b>	The campaign for the fight against the Influenza A(H1N1) epidemic : assessment and lessons learnt .....	26
<b>8</b>	The healthcare system in French Polynesia and its financing .....	28
<b>9</b>	The public support to export companies .....	30
<b>10</b>	Offsetting the public electric utilities charges .....	32
<b>11</b>	Higher education and Research clusters (PRES): In need of a new impetus .....	34
<b>12</b>	National Research Agency (ANR): First findings and outlook... ..	36

# Table of contents

13	Irregular migratory movements to French Guiana, Mayotte and Saint-Martin .....	39
14	Management of natural hazards in the Overseas Departments ..	42
15	Agricultural support policy in the Overseas Departments .....	45
16	A first assessment on the outsourcing activities at the ministry of defence .....	48
17	Management of the Rhône-Alpes ski area .....	51
18	Territorial continuity with Corsica .....	53
19	Government workers at the Ministry of equipment and civil aviation	55
20	The “one-quarter fare” of the military servicemen .....	58
21	Particularities of the remuneration of military reserves .....	61
22	SOVAFIM: An operator with no real usefulness .....	62
23	Paris Habitat’s new headquarters .....	63
24	Exemptions of allowances paid to sports referees and judges : An ill-adapted tool .....	65
25	The national museum of sport: A poorly monitored project .....	68

# Table of contents

## Executive summaries of volume 2:

### Implementation of the recommendations of the financial courts

#### I - The Cour des comptes finds

- 26 Public water and sanitation services: Encouraging developments.....72
- 27 Agencies receiving charitable funding. . . . .74
- 28 The “decrySTALLISATION” of pensions of nationals of territories previously under French sovereign rule.....76
- 29 Financial regulatory authorities.....77
- 30 Central services in charge of Overseas France.....78
- 31 Geology and mining research office (Bureau des recherches géologiques et minières or BRGM). . . . .80
- 32 Air navigation personnel. . . . .82

#### II - The Cour des comptes insists

- 33 The CNRS in the new landscape of research.....83
- 34 Preparation and monitoring of the execution of the Central Government’s budget.....85
- 35 The effects of the certification of the financial statements of the Central Government.....86

# Table of contents

36	Legislative measures concerning Social Security and retirement.....	88
37	Coface.....	89
38	Reorganization of the collection of apprenticeship tax in the fields of transport and logistics . . . . .	90
39	GIP Housing and social actions for marginally homeless and homeless persons.....	92
40	Ecole nationale de la voile et des sports nautiques.....	93

## III - The Cour des comptes warns

41	Chorus and the Financial Reporting Systems of the Central Government.....	95
42	Centre national de la fonction publique territoriale (CNFPT).....	98
43	Grand port maritime de Marseille: social dialogue breakdown and decline.....	99
44	Accounting agencies of public schools (lycées and colleges).....	102
45	Etablissement public d'insertion de la défense (EPIDe) . . . . .	103
46	The participation of France in the European permanent military corps.....	104

# Executive summaries of volume 1

Comments from the financial  
authorities

## 1 The 2010-2013 plan

A fast and strong recovery of all the public accounts is essential to a return to sustainable growth, to preserve the Central Government's programme expenditure capacity and to maintain confidence. It must be part of a planning that is precise and credible.

The Cour des comptes conducted an audit to determine whether the public accounts were following the course described in the public finances planning laws and whether the measures selected by the Central Government to decrease public deficit from 7.7% of GDP in 2010 to 3.0% of GDP in 2013 were sufficient. .

### Worsening of the structural deficit in 2010

In 2010, the public deficit sharply veered off the path laid out in the first planning law -- adopted in early 2009 for the years 2009 to 2012 - as a consequence of the crisis, but also because of inadequate expense control and because the rules introduced by the planning law were not followed.

Putting aside the effects of the crisis put aside, the recovery plan and other extraordinary transactions, public expenditures rose by 1.4% in volume in 2010. The increase was lower than the average recorded over the past ten years (2.3%), but greater than the medium-term objective of the first planning law (1.0%) and too high to contribute to the reduction of the structural deficit. Conversely, the latter, having already reached 5.0% of GDP in 2009, was aggravated by long-lasting reductions in compulsory withholdings, of 0.3% of GDP, which were not in compliance with the rules of the planning law.

### More ambitious objectives and regulations for the 2011-2014 planning

As the Cour des comptes had recommended, the rules established by the second planning law of 28 December 2010 for the years 2011 to 2014 now impose, each year, a structural effort to decrease public deficit by capping expenditure and setting a

# The 2010-2013 plan

minimal return for the compulsory withholding increases.

However, the scope of these rules presents some limitations: In particular, some budget acts or some ordinary laws may challenge the provisions of the planning laws as was shown by the VAT decrease in the food and catering industry. Far-reaching reforms are still needed to achieve the public expenditure changes sought.

## Insufficient structural effort in 2011

The increase in expenditures planned by the Central Government for 2011 is still 1.4% in volume, not including exceptional factors or those related to the economic-situation. The slowdown compared to the trend of the past ten years presupposes the achievement of approximately €13bn in savings from expenditures, not including interest charges on debt, but those that have been identified by the Cour des comptes total approximately €5bn.

Even if there is a 1.4% increase in expenditures in 2011, which is still possible, such would exceed the target of the planning law for 2011- 2014 (0.8%) and it would still be too sharp to contribute to significantly reducing the structural deficit.

The structural effort to reduce the deficit will result only from measures to increase the compulsory withholdings, which would increase income by €10bn

in 2011 (0.5% of GDP). Certain measures only have a temporary effect however and the efficiency of permanent measures equals €7.5bn.

This structural effort shows a distinct reorientation of budget policy, but it is still a long way from the €20bn effort that the Cour des comptes had recommended achieving every year from 2011 onwards in its report of June 2010 on the situation and prospects of public finances in order to stabilise and then rapidly decrease public debt.

The decrease in deficit by 1.7 point of GDP prescribed by the Government for 2011 depends, for its largest portion, on the removal of exceptional or temporary measures (recovery plan, one-off overrun in 2010 of the reform of the business tax, among other things). It is also based on a favourable assumption (2.0%) of an increase in GDP.

## Beyond 2011, recovery measures to be defined

The expenditure and revenue objectives set out in the planning law starting in 2012 represent a structural effort for a decrease in deficit by approximately 0.65 points of GDP each year, which remains, once again, below the one-point of GDP recommended by the Cour des comptes.

Furthermore, it is very difficult to identify, in the documents accompanying the planning law and the draft reforms of the Government, the mea-

asures aimed at increasing compulsory withholdings and decreasing expenditures that make it possible to achieve this effort. As in the stability programmes presented by France for 12 years now and as in the planning law for 2009-2012, the recovery measures are poorly documented beyond the first year of planning.

And yet, the analysis of certain line items shows that the changes in expenditures planned by the Government require implementing reforms that are significantly more ambitious than those already announced. In a September 2010 report on the Central Government's total payroll, the Cour des comptes had underscored that simply stabilising its amount, when the three-year budget anticipates a decrease from 2010 to 2013, would imply freezing the public service point value until

2013 and much stricter capping on pay-grade increase.

The increase in GDP and public revenues could finally be lower than the forecasts in the planning law, which would make it much more difficult to bring the deficit to 3.0% of GDP in 2013. For the plan described in the public finances planning law to be fully credible, the structural effort must be more ambitious and the measures necessary to achieve it must be specified without delay.

## 2 Tax expenditures : A major budget issue

“Tax expenditures” refer to legal provisions overriding a reference tax standard resulting in a loss of revenues for the Central Government. In practice, the borderline, for a given tax or fee, between what is to be considered as overriding and what is to be treated as a simple application of the rule often sparks debate.

### High and sharply rising cost

After being fairly stable from 2000 to 2004, the number of tax expenditures listed in the appendix to the budget acts rose from approximately 400 to 500 from 2004 to 2009 and their total cost increased by 43%. The cost of tax expenditures listed on the official list thus reached €68bn in 2009, not including recovery measures, i.e. 30% of the Central Government’s net tax revenues. The ratio was 18% in 2004, and -- had it stayed at that level -- the budget deficit would have been €27bn less in 2009. Moreover, the 2009 cost of the items removed from the list of tax expenditures since 2004 stands at €75bn.

This sharp rise in the cost of tax expenditures since 2004 has coincided with the implementation of a “zero volume” increase rule for the Central Government’s budget expenditures. In addition thereto, the cost of tax decreases and credits, which are the tax

expenditures that are the easiest to substitute for budget expenditures, rose 142% between 2004 and 2009. The creation and extension of certain tax expenditures made it possible to bypass the budget rules.

### A vague concept, little known costs

There is no definition for the “reference tax standard” in France and, even less so for the measures that may be considered overriding. The list of tax expenditures appended to the budget bills is extremely incoherent. Thus, many measures for the discontinuation or decrease of tax expenditures presented by the Central Government in the 2011 Budget Act concern arrangements that were never on the list or that have been recently removed therefrom. The Cour des comptes would like tax expenditures to be given a precise definition and the list to be reviewed from this standpoint.

Their cost, as presented in the budget documents, must be interpreted with caution, firstly because they are often higher than the revenues that would have been obtained had they been removed. In fact, it is estimated without taking into account any behavioural changes, often impossible to accurately quantify, which could result from such discontinuation. Secondly, the informa-

# Tax expenditures : A major budget issue

tion available could be insufficient to correctly quantify the cost. Finally, it corresponds to the loss of revenues compared to what would have resulted from the application of a reference standard, but such standard is not explicitly stated and may vary from year to year.

The Cour des comptes would like to see an improved quantification of the cost of tax expenditures. Projecting the development of this cost is certainly an even more delicate matter, but the ministry of finance significantly underestimates its increase by merely renewing the latest cost recognized for more than half of tax expenditures. Pending the possible implementation of a more reliable method, the Cour des comptes recommends calculating a tax expenditure cost increase similarly to the revenue from the corresponding tax or to the nominal GDP.

## Rules remain flexible

The planning law for the years 2009 to 2012 had provided for a pledge rule according to which the creations and extensions of tax expenditures should be offset, for each year, by decreases and removals of an equivalent total amount. This rule was not followed in either 2009 or 2010 and the measures adopted since the filing of the planning law have contributed to a €1.9bn increase in the cost of tax expenditures in 2010.

The new planning law, adopted in December 2010 for the years 2011 to 2014, sets, for each of these years, the minimal efficiency of the new measures

for the increase in compulsory withholdings, which could take the form of a decrease in tax expenditures. Moreover, it includes more specifically the tax expenditures by stipulating that the amount of their total cost may not increase. Considering the level already reached and the condition of the public finances, a significant decrease in this cost rather than a simple stabilization thereof should be sought. In its report of June 2010 on the public finances situation and outlook, the Cour des comptes had recommended decreasing it by €10bn, and by the same amount that of the social niches.

The measures adopted in the Budget Act for 2011 will reduce the cost of tax expenditures from the official list by only €0.5bn in 2011, and this cost will remain 7% higher than the amount reached in 2008. The effect of certain measures will be nevertheless deferred past 2011 and the return expected in 2012 is €2.4bn. By adding measures relative to the arrangements not included on the tax expenditure list, but very similar to those that are, the total impact on the public accounts would be €4.3bn in 2011 and €6.2bn in 2012. The latter amount is still quite far from the €10bn target recommended by the Cour des comptes.

Therefore, the effort to decrease the cost of the tax expenditures must be continued.

# Tax expenditures : A major budget issue

## Recommendations

→ Specify the definition of tax expenditure provided in the appendices to the Budget Bills and revisit the resulting list; expanding the field to taxes allocated to other public organizations ;

→ Improve their costing process and, in the absence of any reliable forecast method, instead of renewing it from one year to the next, have it follow the change of the revenue from the corresponding tax or the GDP ;

→ Replace, in the next planning law, the freeze of the total cost of tax expenses by a clause imposing measures to discontinue or decrease the tax expenditures whose total return exceeds a minimum amount ;

→ Expand the cuts and “shave off” costs at least from all the income tax reductions and credits ;

→ Complete the systematic assessment of tax expenditures set out in the previous planning law and take the results into account in the Budget Bill for 2012 ;

→ Base the revision of the tax expenditures on the work of the Cour des comptes, which has often demonstrated the inconsistencies in the expenditures and their disproportionate cost with respect to the results obtained.

## 3 A few tax expenditures dedicated to the development of companies and jobs

The tax expenditures that are favourable to companies and to job creation have an economic impact that is difficult to measure, considering that they are part of a movement of far-reaching reforms of company taxation, which have contributed to improving the environment in which the latter are growing.

Their follow-up is even more imperative considering that companies know how to use them quickly and optimally. Their cost is heightened and the windfall effects are sizeable.

Particular attention should be paid to monitoring the changes in the costs of certain arrangements, which could call into question, in whole or in part, some of them, without that adversely affecting the balance of taxation of companies in France.

### Real cost of tax expenditures often higher than its original valuation

The valuation of tax expenditures which concern companies as well as of measures considered as methods for the calculation of tax (programme 134 of the Budget Act) is not satisfactory. Generally, the initial valuations of the cost of tax expenditures specific to

companies prove to be lower than the actual cost resulting from their effective implementation.

The valuation of the principal tax expenditures put in place in the recent period illustrates how difficult it is to provide Parliament with reliable information on which it can base its decision as to whether to introduce them; that is how striking the differences found can be.

These differences can be explained by the use of traditional valuation rules, by an underestimation of the number of beneficiaries and by the responsiveness of companies, which are quick to implement new measures for the purpose of tax optimisation.

### Budget issues of tax expenditures specific to large groups insufficiently taken into account

The tax consolidation system, the budget cost of which is valued at close to €20bn, is particularly attractive. It makes it possible to offset the losses and gains of member companies or to deduct the financial expenses without real limitation. The application condi-

# A few tax expenditures dedicated to the development of companies and jobs

tions are very favourable. It offers numerous possibilities to neutralize intra-group transactions. The neutralizations lead, year after year, to decreases in the taxable profit of groups compared to those that would result from the simple offset of losses and gains, representing on their own a cost of over €2.3bn.

Certain paths could be explored in order to limit the cost of this treatment, without challenging the fundamental principle of offsetting gains with losses of companies within the same group.

The worldwide consolidated profit treatment enables an international group to determine its taxable income in France, by offsetting gains with losses of its at least 50%-held subsidiaries and of its foreign operations.

This optional treatment can be very favourable. While it has, undoubtedly, been useful in helping the international development of the largest French industrial groups, this is no longer the case today, in an environment in which companies achieve a major portion of their profit abroad. Its removal could be considered.

## Use of the PEA to shelter significant capital gains from tax

The tax treatment of the stock savings plan (plan d'épargne en actions or PEA) was created in order to incite taxpayers to invest, over the long term, their savings into company stock, by enabling them to benefit from a tax exemption on their income from dividends and on realized capital gains.

Expanding the PEAs to include unlisted companies has led to significant tax optimization practices and even to abuse. This is done by including in a PEA stocks of unlisted companies at per unit values below their true value, in order to place on the plan, for the same capped amount, the largest possible number of stocks, in order to benefit from an exemption from capital gains, the amounts of which have no common denominator with those that can be recognised with those that it is possible to recognise when such capital gains are achieved through domestic savings. An anti-abuse mechanism could be implemented in order to limit capital gain exemptions.

# A few tax expenditures dedicated to the development of companies and jobs

## Recommendations

- ➔ Do not be too quick to reclassify a tax expenditure as a tax calculation method, as this could prevent in the future querying the relevance of the measure and the need to preserve it ;
- ➔ Anticipate, during the preparation of the Budget Acts, the rapid response of companies to new measures, in order to better assess their costs and to limit their effective application only to the situations corresponding to the objectives defined by law ;
- ➔ Assess the tax expenditures which correspond to the neutralisation of intra-group transactions, planned for the tax treatment of the group ;
- ➔ Study the consequences from the discontinuation of the worldwide consolidated profit treatment, which seems to no longer respond to an economic need ;
- ➔ Introduce an anti-abuse mechanism, in order to limit the amount represented by exemptions on capital gains realised on the sale of stocks of unlisted companies included in a PEA, as this applies to limiting dividend exemptions.

## 4 Employment bonus : tax expenditure with increasingly indeterminate objectives

The employment bonus (*prime pour l'emploi* or PPE) introduced by the Law of 30 May 2001 aims, according to the terms of the general tax code, to motivate people to return to or continue their occupational activity. It is calculated only on the basis of earned income and is awarded to tax households for each person exercising an occupational activity. Its amount increases for incomes ranging from 0.3 to 1 of the growth-linked guaranteed minimum wage (*salaire minimum interprofessionnel de croissance* or SMIC), after which it decreases for those up to 1.4 times the SMIC.

It is broadly spread: close to one out of four households receives it (8.2 million beneficiaries in 2009) for an average amount of approximately €500 per year. The cost of the measure for the Central Government has nearly doubled between 2001 and 2009, from €2.5bn to over €4bn.

### An ambiguous measure with several goals

The PPE has a multiplicity of objectives (return to work, supplemental income, rebalancing of income tax, support in the moderation of the SMIC).

The numerous adjustments introduced in it year after year, added to the increase in number of the other mechanisms intended to motivate people to return to work, have made it even more confusing.

The PPE can be paid to households whose income is clearly over the average, but conversely, it excludes people having difficulties finding work.

This lack of a clear target prevents it from being a tool to motivate people to return to work, considering that its amount remains inadequate, despite the twofold increase in its overall cost. Created in December 2008 with theoretically similar objectives, the earned income supplement (*Revenu de Solidarité Active* or RSA “*activité*”), both in terms of amount and in terms of the number of beneficiaries, does not call into question this finding.

### Strategy steering and budget management failures

The PPE is not managed by the departments of the ministries responsible for the budget and finances or by the general delegation of employment and vocational training (*délégation générale*

# Employment bonus : tax expenditure with increasingly indeterminate objectives

à l'emploi et à la formation professionnelle or DGEFP). Serious uncertainty, representing for three years one quarter of the amount announced, is affecting the estimate of its cost for the Central Government's budget.

Improvements have however been made to the management of income declarations, thanks to a number of innovations (pre-filled declarations, reminder procedures, taxpayers certification). The PPE, with which taxpayers are familiar, is a benefit that is easy to obtain. The tax procedure makes it possible for it to be paid out to the majority those entitled to it without needing to take any special steps.

Nevertheless, persistent fraud makes it crucial to have a tax control that is suitable for the high number of beneficiaries and the low level of the amounts of each bonus.

**The need to make a political choice with respect to the objective of the measure and its link to the RSA "activité"**

If the reiterated objective of the PPE is to motivate people to return to work, then its amount has to be increased so that it can truly become an incentive and to start targeting beneficiaries whose earned income is insufficient to

naturally motivate them to return to work. The resulting decrease in the number of beneficiaries would make it possible to increase the amount of the bonus, without increasing the overall expenditure.

The RSA "Activité" should then become part of the PPE, whose simple method of payment makes it more of an incentive compared to the RSA, which is complex to manage.

Should the idea of changing the PPE at the expense of the RSA "activité" not be adopted, two other paths could be considered :

- discontinuing the PPE: the RSA "activité" would then remain the only measure providing income to low paid workers as an incentive to re-enter the labour market ;

- preserving both measures: in this case, their objectives should be clearly differentiated. The RSA "activité" would be the measure used to incite people to resume an occupation, while the PPE would become an income supplement for those who are already employed but are have modest resources. In that case, the PPE would have to be structured so as to also take into account the family situation of the beneficiaries.

# Employment bonus : tax expenditure with increasingly indeterminate objectives

## Recommendations

### Should the PPE be maintained :

→ Designate a true leader who will provide strategic management, selected according to the objective retained, income or work ;

→ Secure the registration mode for all the tax expenditure related to income tax, a vital step for the implementation of a performance measure ;

→ Present in an appropriate manner the total cost of the tax expenditure, the amount of tax deductions and of refunds in the form of bonuses;

→ Set up a selective control not based on prior examination of certain

declarations selected on the basis of the irregularities they present;

→ Include time worked on the pre-filled declarations based on the hypothesis that the measure would remain an incentive to return to work ;

→ Improve the reminder procedures for taxpayers that may be eligible for the PPE ;

→ Eliminate all cheque payments and all payments in cash with a view to phasing in payments via bank wire transfers.

## 5 Retirement reserve fund (Fonds de réserve des retraites or FRR): Abandoned ambition, risky reorientation

The retirement reserve fund (Fonds de réserve des retraites or FRR) was created in 1999 to establish a reserve, designed, originally, to reach €150bn and intended to contribute, starting in 2020, to the financing of the retirement schemes of employees and craftsman and industrial and commercial professionals. The Fund was a new instrument for France, embodying the desire of the Central Government to set long-term ambitions. It was supposed to be funded annually through various contributions (surplus from the national old-age insurance fund (Caisse nationale d'assurance vieillesse) or from the old-age solidarity fund (Fonds de solidarité vieillesse), privatisation proceeds, fees, among other things, and interest income from the institution's investment on the markets.

### An abandoned ambition

In June 2010, the missions of the FRR were radically modified, since the Government had announced that it intended to use its resources during the ramp up period of the retirement reform. The Fund, the assets of which, as at 1 November 2010, stood at €36.2bn, would now be supposed to pay annually, starting in 2011 and until 2024,

an amount of €2.1bn at current rate to the social debt redemption fund (Caisse d'amortissement de la dette sociale or CADES), the latter receiving, in addition, allocations and transfers of taxes previously given to the institution

### Results below expectations after six years

The annualised performance (3.1%) from June 2004 to the end of 2010 stands below the cost of the Central Government's borrowings (3.45%) over the same period, which means that, for the period under consideration, there was an increase in public debt. It is true that the poor performance was only recorded in the first six years of a fund designed and managed as a long-term investor, after a very large-scale financial market crisis. The Cour des comptes, nevertheless, found that the crisis was not the only factor that could explain the result observed. It found that the Central Government had not given any strategic orientation to the FRR that would enable it to be guided by stable and precise objectives; it did, conversely, contribute to placing the Fund in an unstable environment by planning on several occasions to withhold in whole

# Retirement Reserve Fund (FRR) : Abandoned ambition, risky reorientation

or in part resources of the institution, and by regularly decreasing the annual amount for the allocations made (€5.5bn in 2002, €1.5bn in 2010). Furthermore, the investment policy of the Fund was not totally adapted: investments on the financial markets were made during periods of high prices, with a high proportion of equities. It had an inadequate response to the financial crisis.

## A risky reorientation

The change in the nature of the FRR presents serious risks. It had, indeed, built its financial strategy on the premise that it was a long-term investor and could therefore take risks, since the losses, if any, would smooth out over time. The new conditions with a ten-year shorter horizon for its liabilities reduce the Fund's chances to return to a satisfactory annualised performance, considering that it will not be able to apply, over the long term, an investment policy that would enable it to seize the opportunities that the financial markets would present. The short-term choice that was made presents one risk: the reserves booked by the FRR will not be there if the retirement schemes' losses continued beyond 2020.

## Management in need of improvement

The FRR's situation requires, in any event, an improvement of its governance and management. The Cour des comptes recommends clarification of the roles of the supervisory board and management board and a more active role for the audit committee of the institution. It further underscores that progress needs to be made in terms of administrative management which, entrusted by law to the Caisse des dépôts et consignations, could be improved both in terms of costs and in terms of services. The Cour des comptes also recommends that the FRR reviews the conclusions to be drawn from the changes in progress in relation to the extent of the outsourcing of its activities. The law stipulates that financial investments be made through agent financial companies the cost of which was high and whose usefulness seems less relevant with the sharp decrease of the equities portfolio. This obligation of outsourcing could be fully or partially challenged. The FRR should then examine the consequences of this reorganization for its statutes and governance methods.

# Retirement Reserve Fund (FRR) : Abandoned ambition, risky reorientation

## Recommendations

➔ Preserve, referring to the Central Government, a framework that would enable the FRR to manage its portfolio with a stabilised horizon for its liabilities ;

➔ Research the possibility, for the FRR, to challenge the obligation to outsource the financial management of its portfolio and that aimed at entrusting the Caisse des dépôts, in whole or

in part, with the financial management of the assets concerned. ;

➔ Examine the consequences of this reorganization for the statutes of the establishment and on its governance methods ;

➔ Continue to improve internal management, notably in the area of accounting.

## 6 The French compensation system for partial unemployment : An insufficiently used tool

Partial unemployment (or short-time working) has been one of the principal tools called on in Europe to help face the economic crisis. This work-time adjustment measure allows an employer to reduce the work time of employees whenever there is a temporary decline in business without breaking the employees' employment contract. During off-work periods, the remuneration of the employees is covered, in whole or in part, by the public authorities (the Central Government in France, unemployment insurance in Germany). Partial unemployment is thus for employees a tool for securing their professional situation and, for businesses, an instrument to preserve their productive capacities.

### Limited revival of a system fallen in disuse

Over the past two years, the French partial unemployment system grew stronger. Largely fallen into disuse during the 2000s, it was revived when the crisis occurred. However, the European comparison made by the Cour des comptes, notably with Germany, Italy and Belgium, shows that the intensity with which it was brought to action was clearly lower than that in certain neighbouring countries. Thus,

Germany had up to 1.53 million employees in partial unemployment at the height of the crisis (2nd half of 2009), while France had only 275,000 as at the same date. The amounts allotted to partial unemployment in the two countries reflect the difference: while the public finances cost for this arrangement was €610m in France for 2009, it is estimated at €6bn in Germany for the same year. Likewise, the portion of the population of employees concerned by partial unemployment was clearly lower in France than in Belgium or in Italy.

The French economy thus took less advantage of partial unemployment than others such as Germany or Italy. Its impact in terms of remaining employed *de facto* seems to have been modest: According to a study by the OECD, partial unemployment contributed to the preservation of 251,000 jobs in Germany during the crisis, compared to 124,000 in Italy and only 18,000 in France. Moreover, the use of partial unemployment periods for the purpose of training employees, which was difficult to implement, remained marginal.

# The French compensation system for partial unemployment : An insufficiently used tool

## Reasons for the under-use of the partial unemployment scheme in France

The relative under-use of the partial unemployment scheme in France seems to be related to several causes:

-obsolescence of the legal mechanism when the crisis broke out: the principal parameters of the system (notably, the rates of aid to businesses and the level of remuneration guaranteed to the employees) had not been revised, in some cases, since the previous crisis in 1993. The legal mechanism had to be renewed urgently at the end of 2008, with initially an update of what was in place, followed by the creation in 2009 of a new system, known as “long-term partial employment”. The latter includes higher replacement remuneration paid to the employees as well as higher aid to businesses, due notably to the response of unemployment insurance which undertook to participate in the financing. However, the “long-term partial employment” only entered into effect once the peak of the crisis had already passed, which can explain, to a certain extent, the low level of use of partial unemployment in France ;

- structural factors related to certain specificities of the economy and the labour market: More than 80% of partial unemployment concerns industrial jobs. The portion of the latter being

lower in France (20% of the actively employed population) than in Germany (25%) or in Italy (28%), partial unemployment logically concerned a narrower public. The development of the legislation applicable to the labour market in France from the late 1990s onward reinforced the external flexibility tools (fixed-term contracts or temporary employment) and introduced new work-time management methods, notably the possibility to annualise it in order to adapt the pace of work to that of the business; this organisational adaptability made it possible to avoid, at least initially, the use of partial unemployment ;

-insufficient incentives for businesses: In fact, while the compensation of employees under partial unemployment is rather more favourable in France than abroad, our system is conversely less favourable than elsewhere to employers who remain responsible, in the most commonly encountered cases, for one fourth and potentially up to half of the compensation of employees, i.e. a level that is significantly higher than that observed in neighbouring countries, notably in Germany or in Italy.

## Recommendations

➔ Make the legal mechanism more attractive ;  
➔ Simplify its legal framework ;

➔ Build upon the incentives aimed at combining partial unemployment and training.

## 7 The campaign for the fight against the Influenza A(H1N1) epidemic : assessment and lessons learnt

In order to contribute to a better response by the public authorities in the event of another national health crisis, the Cour des comptes presents here its main observations following two audits conducted at the request of the competent Commissions of the Senate on the use of public means in the campaign to fight influenza in 2009, and of the National Assembly on the role attributed to the Health Emergency Preparedness and Response Agency (Etablissement de préparation et de réponse aux urgences sanitaires or EPRUS) created in 2007.

### A new and disappointing crisis management system

This campaign was the first time the new public system for the management of a crisis was put to the test in the face of a pandemic risk. Despite the positive joint action of the administrations and the active involvement of players concerned, the situation reflected a major disproportion between the size of the financial means and of the organisation deployed therefor and the poor vaccination coverage achieved, which

only reached just over 5 million people, i.e. 8.5% of the population.

The actual cost for public finances of the policy followed thus amounted to 60 Euros per vaccine used and over 110 Euros per person vaccinated.

### A vaccination strategy that lacked flexibility

The strategy intended to offer to the entire population the possibility to be vaccinated at centres created for that purpose turned out to be excessively rigid, with respect to the rapid adaptations which would have been required by the emergence of a more moderate than anticipated health risk. The deficient response and lack of flexibility also affected the communication provided to the public and developed to support the campaign as well as the contracts for the procurement of vaccines (signed without contingency clauses) or the organization mode, too exclusively based on special vaccination centres.

# The campaign for the fight against the Influenza A(H1N1) epidemic : assessment and lessons learnt

## Recommendations

- Revise the national influenza pandemic plan to further adapt it to the needs of crisis management and seriousness of the threat on the national territoryl ;
- Introduce in that same plan a financial and budget component ;
- Better estimate the reality of the workload and the response time of the decentralised services involved in the local organisation of crisis management ;
- Not automatically exclude from the organisation of the vaccination campaign the hospitals or physicians in private practice, considering the role of local advisors that they must play in terms of public health ;
- Rethink the governmental communication on the vaccination campaign ;
- In addition to managing any health crisis, start a concerted effort in favour of a vaccination policy to enable a more objective appreciation of advantages it has to offer ;
- Organise a European coordination effort to reinforce the position of the Central Governments in the negotiation of procurement contracts for vaccines.

## 8 The healthcare system in French Polynesia and its financing

The French Polynesia Territory (260,000 inhabitants) has a separate healthcare system, for which it assures the organisation, steering and management, as part of its specific political and administrative autonomy.

### An overall performing system

The healthcare organisation in place, accessible to the majority of the population, covers the entire territory and combines preventive and medical care. For activities not provided locally, patients benefit from medical evacuation through which they receive appropriate care in Metropolitan France or in New Zealand.

The performance of the healthcare system presents undeniable positive aspects, especially when compared to that of the countries that share with the disadvantages of insularity and isolation this overseas territory. The changes in and level of life expectancy and of the mortality rate place French Polynesia in a favourable position. Means indicators, such as the physician-to-population ratio, are equivalent to or even higher than those in the most developed countries of the South Pacific.

### Deficient management

The political instability which the overseas territory has been experiencing since 2004 and the lack of continuity of managers in charge of designing standards largely explain management deficiencies

Numerous weaknesses, notably in terms of healthcare safety, are not addressed by regulations. There has been no true healthcare policy since 2005. The healthcare organization system for French Polynesia is out-dated. The opening of a new referral hospital in 2010 would have offered the occasion to overhaul it. The system in fact has never been considered as the tool for regulating the offer of hospital care and optimal distribution of resources that it should have been.

Finally, the information about healthcare availability is incomplete and out-dated. The results from the most recent general surveys on the health condition of Polynesians go back to 1995. The Programme for the Medicalisation of the Information Systems (programme de médicalisation des systèmes d'information or PMSI) is insufficiently developed and underused.

# The healthcare system in French Polynesia and its financing

## The cost of the healthcare system in French Polynesia is high

Current healthcare expenditure, never estimated since general social protection was introduced in 1994, was in 2008 over CFP72bn (€605m), or the equivalent of 48.7% of the budget of French Polynesia and 13% of its GDP. Its growth rate, by far higher than that observed in Metropolitan France, is approximately twice as high as that of the GDP. And yet, this trend seems difficult to curb both because of the morbidity characteristics of the population, combined with its aging, and because of the consequences of the renovation of hospital facilities.

Under these conditions, the two main financiers of healthcare, the Welfare Fund (caisse de prévoyance sociale or CPS) and the Territorial Administration, which must face growing budget difficulties related to an unprecedented economic crisis, no longer seem able to ensure, as things stand, the balance of the system.

## A large-scale reform is required to guarantee the continuity of the system

Drastic savings measures seem indispensable. Streamlining the healthcare entities, notably the hospitals and a more efficient management of human resources must be envisaged.

But the principles and mechanisms of financing of the healthcare system must also be overhauled. The overseas authority should be able to set objectives and define their performance indicators and provide annual data derived from the healthcare accounts. This means that it will contrast with the usual methods for the allocation of resources, should enable it to set an annual healthcare spending target and to prepare objectives and means agreements, in order to ensure both a transparent and quantified management of public policies in this sector.

## Recommendations

- ➔ Define and prioritise the healthcare objectives ;
- ➔ Optimise the healthcare offer ;
- ➔ Overhaul the principles and mechanisms for the financing of healthcare ;
- ➔ Assert the pre-eminence of The Territory Administration of French Polynesia in the decision-making process.

## 9 The public support to export companies

France, like its principal competitors and in compliance with the competition rules imposed by European Community laws, the OECD (Organisation for Economic Co-operation and Development) and the World Trade Organisation (WTO), is preserving numerous laws intended to ease the access of its companies to foreign markets. Public support however is intended to be subsidiary with respect to the market.

6.9% of French exports and some 10% to 15% of the export companies received support in 2009.

### An as yet incomplete reorganisation

The great variety of players in foreign trade within the public sphere has led the Central Government to try to create a better organisation for them. It created an inter-ministerial commission to support international contracts, tasked with coordinating the resources allocated to the largest projects. It established a public industrial and commercial institution, Ubifrance, which now has a network of economic missions present in 44 countries.

This positive rationalisation of public support levers is nevertheless yet to be completed. The clarification of the role of Ubifrance, whose action has

been updated, on the one hand, and that of the other players - Oséo, Coface, chambers of commerce in France and abroad, private operators specialising in international trade, regions – still seems inadequate. As part of the renegotiation, in 2011, of the objectives and means agreement of Ubifrance, the Central Government should define in a more precise manner the public service mission of that institution, following the logic of subsidiarity with respect to the private players in the field of export.

### A questionable support target

The laws are poorly oriented towards geographic areas where companies' access to the markets is more difficult. Moreover, support could be awarded in a more selective manner to companies likely to export over the long-term. The current target-setting policy may be costly to public finances, as it leads to exposing the Central Government to a high rate of failure which it assumes under its guarantee to Coface. Generally, the budget risks related to the Central Government's guarantee should be better framed and managed. The Parliament should be better informed thereabout.

# The public support to export companies

## Consequences from the policy of support provided to international development

The policy to support exports is being reoriented in an uncertain manner towards the support of the internationalisation of companies, which leads to

French offers becoming part of the production of subsidiaries or suppliers abroad, in Europe or elsewhere. Public guarantee financing of such export contracts, which has flexible terms, may lead to supporting strategies for the delocalisation of the companies.

## Recommendations

→ Define a “company internationalisation” policy that would take into account its consequences in terms of national employment ;

→ Improve the management of this policy by :

- Providing a precise definition of the public service mission of Ubifrance in the next objectives and means agreement signed by the Central Government;

- Monitor the cross-agreements signed between the various foreign trade players and streamline their respective roles ;

- Implement systems for the evaluation of the support tools ;

- Improve the monitoring mechanism for the various financing and support systems, including outside OECD countries ;

→ Better target-setting for the support through:

- A more selective orientation of the supports towards companies likely to export over the long-term ;

- Limitation of the windfall effects by discontinuing supports for prospecting such as SIDEX and the tax credit ;

- Better control over budget risks through an improved budget follow-up of public guarantees granted to Coface due to better informing of Parliament, better understanding of risks, in particular non-sovereign risks, and efficient use of accrual accounting.

## 10 Offsetting the public electric utilities charges

The contribution to the public electric utilities charges (contribution aux charges de service public de l'électricité or CSPE): A substantial, yet overlooked, amount (€1.7bn in 2009)

This contribution, which the consumers pay directly when paying their electricity bills, serves to offset charges inherent in the public electricity service supported by various operators of the electricity market: mainly, the support to renewable energy and cogeneration, the rate equalization in the Overseas Departments and Corsica and the low-income electric rates.

Since its creation by Article 38 of the Law of 3 January 2003, the charges that the CSPE is supposed to offset have grown rapidly and uncontrollably, while the contribution rate, for its part, has remained unchanged, at €4.5/MWh until 2010, as the Energy Minister has refrained from modifying it.

Between 2004 and 2009, total public utilities charges rose from €1.53bn to €2.55bn

Within those charges :

- The low-income rates, even though increasing sharply, still only occupy a marginal place (3.2% in 2008) ;

- the rate equalisation, in the Overseas Department and in Corsica rose from 23% in 2004 to over 45% in 2009;

- the energy purchases, which result from the support to renewable energy and cogeneration, occupy a predominant place, of close to two-thirds of the amount of the charges.

Within those, the wind and photovoltaic sectors are gaining increasing importance. Compared to the total volume of electricity purchased, this sector would only increase from 0.07% in 2008 to 0.8% in 2010, but its relative weight in the charges offset by the CSPE would increase at the same time by from 0.9% to 10.3%.

# Offsetting the public electric utilities charges

## The CSPE basis has increased at a slower pace than the charges

The result from that is a growing imbalance of the offsetting mechanism, for the most part supported by EDF which assumes more than 95% of the charges of public electric utilities. The company quantifies the accumulated CSPE recovery loss at €2.6bn at the end of 2010.

For 2011, the Energy Regulation Commission (Commission de régulation de l'énergie or CRE) estimates the forecasted charges at €3.47bn. It values at €12.90/MWh the contribution that would be needed to offset them.

Admittedly, corrective measures have just been taken. The 2011 Budget Act allows an increase by €3/MWh for the CSPE, whose total amount thus becomes €7.5/MWh. Moreover, the Central Government has, by decree of 9 December 2010, suspended for three months, the obligation mechanism for the purchase of electricity produced by certain facilities using radiating solar energy.

The Cour des comptes considers however that these corrective measures do not constitute a true remedy for the structural drift in the current system.

## Recommendations

→ Achieve control over the growth factors for the public electric utilities charges, the number one target being the system of compulsory purchase at too attractive rates which operates on an “open for business” basis ;

→ Inquire about the possibility to continue supporting sectors that are not among the governmental priorities in terms of energy policy, such as the co-generation ;

→ Re-examine from every angle the overall system in order to make its operation more readable and clarify its tax status ;

→ Re-examine the financing of the support for the development of renewable energy by the consumer of energy.

## 11 Higher education and research clusters (PRES): In need of a new impetus

### A new momentum since 2006

The 2006 planning law for research created research and higher education clusters (pôles de recherche et d'enseignement supérieur or PRES), which were supposed to be the privileged place for structuring mutualisations between institutions.

At 1 January 2011, 21 PRES had been created. A real momentum was launched. The ministry of higher education and research favoured the emergence of projects in the form of new public institutions for scientific cooperation (établissements publics de coopération scientifique or EPCS).

Operation Campus, which is a real-estate project with a capital of 5 billion Euros, supported this movement, the PRES being most often the principal investigators of the selected projects.

### Modest results

However, the PRES development was thwarted, for several reasons: The priority given, since 2007, to the implementation of the law relative to the freedoms and responsibilities of the univer-

sities (libertés et responsabilités des universités or LRU law) which overshadowed the cooperative logic; insufficient ministerial support, once the creation wave had passed; a passive attitude of the large research organisations; finally, the piling up of multiple mechanisms of various nature over the course of the years with no links among them.

In fact, the results are significantly below the expectations created. The PRES still have a modest impact on training. Site policies are struggling to emerge for research. PRES governance is often unsuited to their ambitions.

### A needed clarification

The new financial means, notably, “the growth-enhancing investments” launched as part of the large loan, are such as to favour the combination or consolidation approaches and to strengthen the role of the PRES.

However, the generally difficult budget context imposes the obligation to strive for an efficient use of the new means granted.

From this viewpoint, the need to clearly specify what is expected from the

# Higher education and research clusters (PRES) : In need of a new impetus

PRES is urgent. If these structures are called on to be major players for the ongoing restructuring, they should then be made the point of impetus and carriers of site policies as well as true unifying

factors, in terms of training programmes, research and enrichment policies.

## Recommendations

→ Strengthen the support provided by the Central Government through a contractualisation with the PRES, the objective should be in the long term the signature of a single site contract and the definition of a shared vision of the policies of the site between the Central Government, the local authorities, the higher education institutions and the research bodies ;

→ Orient the future of the PRES in two directions through contributed support, when integration is the most suitable formula for the creation of a new public institution in which members would merge; or, if a merger does not seem appropriate, create long-term bonding entities with a strong identity and with reinforced skill sets and responsibilities.

## 12 National Research Agency (ANR): First findings and outlook

Created in 2005, the National Research Agency (Agence nationale de la recherche or ANR), mostly issues requests for proposals by research teams and selects the winning proposals according to criteria of scientific excellence. To do so, it has had at its disposal since 2006 an annual programme budget of approximately €800m. The Cour des comptes wanted to prepare a first status report regarding the activities of this agency at a time when three major decisions were taken: In June 2009, the minister of higher education and research announced the transition from 25% to 50% of the portion of credits dedicated to requests for non-thematic proposals, and the assumption by the ANR of all the missions until then provided on its behalf by “support units” housed within various research and higher education institutions. Finally, the ANR will manage €18.9bn of the “growth-enhancing investments”, decided as part of the Big Loan (Grand Emprunt). These decisions are intended to change the nature of the agency, initially designed by the legislator as a more streamlined organization.

### Successful ramp-up

Created in 2005, the National Research Agency was able to find its place in the public policy of research

very fast. Its activities, turned towards the financing of projects, complete an important development of the French research landscape by converging with the practices of our principal foreign partners. The ANR has brought in that context formalised peer-evaluation-based selection processes.

Beyond the sometimes lively debates which have surrounded its creation, the community of researchers has mobilised to respond to the ANR’s request for proposals: Since 2005, the agency has received 5,500 projects belonging to some thirty requests for proposals launched, it has selected 1,462 and committed close to €540m in credits. All in all, between 2005 and 2009, the agency was the recipient of approximately 25,000 research projects and had financed 5,800 for a total amount exceeding €3bn.

### Programme methods to be consolidated

The rules that govern the allocation of aid from the ANR were inherited from out-dated systems, can be improved and have effects that should be corrected..

First, the aids, in general delivered for three years, can prove to be too short in certain domains such as the human and social sciences and mathe-

# National Research Agency (ANR): First findings and outlook

matics, and the quite rigorous rate of project selection could lead to the elimination of the most innovative applications.

Then, the ANR acts differently in public laboratories and private laboratories, in particular because of the fact that public laboratories have financing derived from the Central Government's budget for their recurring operations. Without challenging the rationale behind the various calculation methods used for these two categories of beneficiaries, in its inquiry the Cour des comptes has found on a test basis that the resulting ratio of participation is very different: approximately 25% of total cost for a public laboratory project compared to close to 50% for a private laboratory in 2009.

Finally, the principal difference between the aid granted to public and private laboratories has to do with the fact that the remuneration of permanent staff is obviously excluded from the basis of expenses eligible to receive aid from the ANR in the case of public entities. As a result, the agency essentially provides support by financing non-permanent staff: in 2008 it financed over 15,000 fixed-term contracts. This situation presupposes that ANR regularly monitor what happens with such staff and calls for contemplating a broader basis of personnel expenses eligible for aid from the ANR, regardless of whether it has to do with financing of partial teaching release time or bonuses for principal investigators.

## Weaknesses in terms of finance and management

In financial, budget and accounting matters, the audit by the Cour des comptes drew attention to the weaknesses that would have to be overcome before the ANR can provide the management for third-parties of the €18.9bn in growth-enhancing investments with which it is to be entrusted.

Thus, the agency did show in its accounts its multi-year commitments until 2009 and for the audit by the Cour des comptes it had to recognize a provision of more than €1bn in relation to that. Its needs in budget payment are calculated without taking into account the effective calendar of the payment of its aids: what results is a surplus of €400m in payments from the Central Government's budget.

In this context, the decision to discontinue in three years the operations of the support units is a gamble. Until 2009, these units accommodated by a dozen higher education and research institutions were managing 80% of the requests for proposals of the agency. The fact that this decision is not applied under satisfactory conditions makes this gamble all the more risky and pushes the ANR away from the directions traced by the legislator who wanted it to be a more lightweight organization.

# National Research Agency (ANR) : First findings and outlook

## A strategic positioning to be clarified

Several of the systems provided for by law were not applied. This is true particularly of the multi-annual contract with the Central Government. The negotiation and signing of such a contract seem today necessary and urgent. This contract will have to prioritise the objectives of the agency, among other things, and specify the conditions under which the planning of the agency connects with the strategic priorities of the Central Government.

Six years after its creation, the positioning of the aids provided by the agency and the results obtained deserved to be the subject of an evaluation on the basis of an update of indicators that would make it possible to assess the efficacy and the specific efficiency of the agency. Placing the activities of the ANR in a multi-annual context becomes all the more important since the 2011 Budget Bill stipulates granting it lower amounts, thereby raising the issue of the place finally reserved to the financing of public policy and research projects.

## Recommendations

### With respect to strategy :

→ Establish and sign without delay the multi-annual contract stipulated by the law between the Central Government and the ANR that should in particular clarify the objectives assigned to the agency and its link to the strategic priorities of the Central Government and the choice of programmes giving rise to requests for proposals ;

→ Building indicators of the impact of the activities of the agency making it possible to measure its added value ;

### With respect to management :

→ Control over the agency's increase in workforce, by providing an adequate management framework ;

→ Establish the annual allocations of the ANR as payment appropriations based on a precise calendar of the needs related to the commitments ;

### With respect to the aid delivered by the agency :

→ Measure the ratio of actual aid provided to public and private laboratories in order to substantiate the deviations found or to absorb them ;

→ Specify the borderline between certain growth-enhancing investment actions and the planning specific to ANR ;

→ Ensure that the mechanism specific to the valuation of results from public research that has received the support of the ANR has been implemented ;

## 13 Irregular migratory movements to French Guiana, Mayotte and Saint-Martin

The size of irregular migratory movements is a major phenomenon in French Guiana, Mayotte and Saint-Martin

The borders of these territories are particularly difficult to monitor because of insularity or, for French Guiana, because of an immense and sparsely populated Amazon forest, as well as an increasing attractiveness given that the quality of life of the inhabitants of neighbouring countries, culturally and linguistically close, is considerably lower.

31,000 escorts back to the border of foreigners with irregular overseas status in 2009

95% of these escorts were made from Mayotte (close to two thirds), French Guiana (approximately one third) and from Saint-Martin. Their number grew continuously between 2002 and 2009 and even exceeded that reported for Metropolitan France. For the first time in 2009, the number of persons held in the overseas administrative detention centres came close to that

of Metropolitan France, while in 2005 it was less than one third of it. The majority of that concerns Mayotte and French Guiana.

The policy led has reached its limits

These data reflect the persistent difficulties to control the irregular entries into the territory rather than the efficacy of the policy applied, which is for the most part based on strengthening the resources of the security forces.

1) The legal regime includes particularities that have been reinforced by two laws of 2006 and 2007 relative to immigration and integration. The legal rights of appeal of persons detained are more limited than in Metropolitan France and the deportation failures less frequent. The exemptions from ordinary law, based on the characteristics of the territories concerned, make it more difficult for a judge to ascertain the regularity of removal procedures.

2) The organisation of means to control the irregular migratory movements is not very satisfactory. In French Guiana, the mechanisms used by police at the borders are experiencing malfunctions, because of unfortunate property

# Irregular migratory movements to French Guiana, Mayotte and Saint-Martin

choices, among other things. In Mayotte, the judicial response, in particular with respect to smugglers, has to deal with the shortage of magistrates and the overpopulation of the retention centre in Majicavo. In Saint-Martin, the action of the police at the borders suffers from the dispersion of police stations and an unsuitable control mechanism.

3) With respect to administrative detention centres, deficiencies have been found in the situation of women and children as well as in relation to healthcare and judicial assistance. The professionalisation of the management of the centres remains inadequate. The Cayenne centre was brought up to standard in 2007, but its extension has to be torn down before building a new one. The Mayotte centre has been experiencing recurring overpopulation for almost ten years; the plan to build a new centre announced for mid-2007 has been postponed until June 2012.

4) General problems are poorly resolved. The number of “repeat offenders”, i.e. people who return to France after having been escorted back to the border, is not measured and the services concerned have no targets in that respect. The distribution of police workforce at the borders is not rational: French Guiana and Mayotte are unders-

tuffed compared to the West Indies, while the problems there are more acute. In terms of air transport, the plane specifically chartered since 2008 for French Guiana serves primarily for internal flights, while its use is only fully justified for direct deportations abroad.

5) The conducting of relations with the neighbouring countries, ensured by several ministries, seems to be poorly coordinated. The results of a few initiatives taken these past few years do not correspond to the challenges. In French Guiana, the mixed commissions are recent with Surinam and French Guiana, Central Governments whose practices are an important hindrance to the removal of immigrants.

## Regional cooperation remains limited

In Mayotte, the negotiations started by France in order to normalise its relations with the Union of Comoros did not succeed. Few initiatives have been taken to establish a true regional cooperation. The departmentalisation of Mayotte, from which the Union of the Comoros never admitted being separated, may not facilitate such a process. In Saint-Martin, while the treaty of Concordia of 1648 between France and the Netherlands (the island, as the other

# Irregular migratory movements to French Guiana, Mayotte and Saint-Martin

Overseas Department, is not included in the Schengen treaties), establishes free movement between the two parts of the island, joint control over the island's airports is still not in place. The draft police cooperation agreement, finally prepared, was still not signed in October

2010. The negotiation of a readmission agreement was never seriously envisaged.

## Recommendations

→ Periodically evaluate the advantages and disadvantages of the overriding legal provisions applicable to the Overseas Territories ;

→ Adapt the detention centres map; speed up the building a new administrative detention centre in Mayotte; supplement the social, medical and legal assistance ;

→ Further professionalise the management of detention activities and the deportation of immigrants overseas ;

→ Systematically measure the repeat offenses and set objectives in relation to this for the departments concerned ;

→ Take better account of irregular migratory movement in the relations with the neighbouring Governments, notably by clarifying the distribution of respective jurisdiction amongst the ministries concerned.

## 14 Management of natural hazards in the Overseas Departments

The Overseas Departments are highly exposed to natural hazards: earthquakes, tsunamis, cyclones, volcanic risk, marine submersion and flooding.

The magnitude and diversity of natural hazards have developed a “risk culture” there, both among the population and among the elected officials. But its translation into practice suffers, notably at the level of the local authorities, due to its limited human and financial resources. As for the actions of the purview of the Central Government, they remain perfectible.

### The prevention mechanisms show several insufficiencies

Not all risk prevention plans (plans de prévention des risques or PPR) are approved. Some of them are imperfect, in particular in the West Indies: the “swell and cyclonic tide” risk is insufficiently taken into account; micro seismic zoning remains to be integrated, zoning in Martinique remains ambiguous. The approved PPRs are not always strictly applied. The construction permit checks are irregular. The fight against illegal constructions is inadequate.

There is a “West Indies earthquake plan” but it presents several deficiencies. Its inter-ministerial features are inadequate. The association of local elected officials was not planned initially. The diversity of its objectives, without prioritisation, presents a risk of dispersion.

Budget financing, of various origins, rarely identifiable, are not subject to multi-year financial planning. The balance of reinforcement and adaptation expenditures for existing construction is mediocre. The training effort is not sufficient to impact, within a reasonable timeframe, all the players concerned. The awareness raising methods should be modernised.

### Numerous Central Government buildings, essential in the event of crisis, non compliant with standards

For teaching institutions, while the assessments have just been completed for the most part, the works have only started. One portion of the low-income housing inventory is vulnerable while, for private housing, individuals do not have the means to request an assessment of the vulnerability of their homes; the

# Management of natural hazards in the Overseas Departments

earthquake assessment is not mandatory when a transaction takes place.

## The recognition of natural hazards is still imperfect

The land-use planning policy still poorly accounts for the volcanic risk.

While the population awareness raising efforts at the beginning of each “cyclonic campaign” seem satisfactory, the information about high-wind structural detailing is less systematic.

For flooding, the flood warning reform, initiated in 2003 in Metropolitan France, has not yet been applied in the Overseas Departments, the preparation of preventive action plans for flooding is behind schedule. The recognition of the risk of marine submersion is often inadequate. Numerous actions remain to be carried out to prevent the risk of landslides

## The weaknesses of crisis management

For the volcano logical and seismological risks, the building of the observatory in Martinique is not compliant with earthquake-proofing standards. The observatories are not equipped for large scale earthquakes; the mechanism of financing of the observatories is

uncertain, even to ensure the equipment maintenance. The tsunami alert systems for the Indian Ocean and especially the Caribbean are not completely satisfactory, because of the deficiencies of the equipment.

The decrease in armed forces on location required provision for additional human resources either on a permanent or temporary basis. Several contingency plans should be updated.

La réduction des moyens des forces armées sur place nécessite de prévoir des moyens humains supplémentaires d'intervention, à titre permanent ou temporaire. Plusieurs plans de secours méritent d'être actualisés.

Feedback is generally received, but the practical consequences to be deduced are not established precisely, and the identification and measurement of the costs are inadequate.

## Compensation mechanism

While the application of the “natural catastrophes” treatment is limited in scope because of the small proportion of people insured, the implementation of the relief fund, financed by the Central Government's budget, calls for a few observations. Agricultural operations are the main beneficiaries as they

# Management of natural hazards in the Overseas Departments

are eligible for the agricultural catastrophe fund.

The application of the rules as well as their control lack rigour. Sometimes several years pass between a catastrophe and the full payment of aid to the local authorities.

The significant compensation expenses (€85m from 2007 to 2009)

must in fact be compared with those, overall rather small, dedicated to prevention.

## Recommendations

→ Complete and improve the natural hazard prevention plans, in particular those related to earthquakes; reinforce the fight against illegal constructions ;

→ For the West Indies earthquake plan, increase the involvement of local authorities and contract with them; establish multi-year planning; improve the inter-ministerial nature of the mechanism ;

→ Increase significantly the occupational training effort; put in place a control mechanism for building regulations; make the earthquake vulnerability assessment mandatory at the time of real estate transactions ;

→ Stabilise the financing framework for the volcano logical and seismological observatories; clarify the respective responsibilities of the prefect and of Météo France ;

→ Include the Overseas Departments, and as a priority those of the West Indies, in the overhaul of the national alert network ;

→ Complete the contingency plans; require local authorities to establish a communal safeguard plan (plan communal de sauvegarde or PCS); plan “volcano” exercises in the West Indies; improve feedback ;

→ Adapt the compensation mechanism to motivate prevention ;

→ Examine the possibilities to make the farms of the Overseas Department eligible for the agricultural catastrophe coverage; apply rigorously uniform rules for the relief funds.

## 15 Agricultural support policy in the Overseas Departments

The relative weight of agriculture is, in the four overseas departments (Guadeloupe, French Guiana, Martinique and Reunion), greater than in Metropolitan France. While the portion of the population working in agriculture is however of the same order as that in Metropolitan France (3.5%), the strong demographic growth makes agricultural production an essential local economic issue.

### The agricultural sector public support policy raises substantial financial aid

European agricultural aids are part of a special European programme. Its component concerning the ultra-peripheral regions, named POSEI (programme d'options spécifiques à l'éloignement et à l'insularité – options specific to remote areas and insularity programme), applies to the four departments. As part of POSEI-France, implemented in 2006, then in 2007, for the banana sector, a double choice has been presented: maintaining the export crops that are "structuring" (banana and

sugar-cane-rum) and favour the diversification of products, with a view to improving self-sufficiency. The amount of aid paid was increased, with as an objective the preservation of jobs in the agricultural sector. Outside of this programme and the European aid to rural development, national aid has also progressed significantly, notably after the social unrest in 2009 and the organisation of the "Overseas Convention". All in all, the amount of agricultural aid paid to Overseas France increased by 40% between 2008 and 2010, rising from €370m to €520m (estimated amount); it is favourable to the banana and sugar cane sectors.

In relation to the control of the Overseas agricultural economy development office (Office de développement de l'économie agricole d'outre-mer or ODEADOM), which pays a portion of that aid, the Cour des comptes has found that that the organisation, tasked by the rural code to carry out an assessment of the agricultural aid paid in Overseas France, was not fulfilling the role ascribed to it. As a result, the Cour des comptes strove to prepare the assessment and evaluate the contribu-

# Agricultural support policy in the Overseas Departments

tion of aid for sustainable agricultural development.

Public aid represented, in 2008, 28.6% of the value of the Overseas Departments' agricultural production, in other words, double the proportion reported in Metropolitan France

This average covers significant differences resulting from the concentration of aid in the banana sector: 64.7% for Martinique, 32.8% for Guadeloupe, 14.5% for Réunion and 8.4% for French Guiana. The budgetary effort of the Central Government for banana producers in the West Indies also takes other forms: thus, the Central Government has written off claims on the repayment of loans, to the amount of €49.2m; European aid repayments have also been requested from the Central Government by the European Union (€88.4m).

Preserving aid to the banana sector, while its production was declining, has resulted in aid per ton between 2007 and 2009 doubling that recorded between 2002 and 2006. The current aid per hectare of banana plantations in the West Indies exceeds €15,000, i.e. over €300,000 for a 20-hectare farm. This support did not even materialise in the preservation of jobs, the latter having

decreased by more than 40% in the banana plantations in the West Indies.

The priority given to export crops, which are nevertheless not very competitive on the global market, leaves only a small portion of the aid for the other local produce. As a result, despite the increase in the overall amount of aid, the supply of the population with local products has generally diminished and the trade balance of agricultural and food products has deteriorated. Thus, the coverage rate of the trade balance for these products is of the order of 20%. The situation is even worse for organic agriculture.

The issues raised by the pollution related to the treatment of banana trees

The Cour des comptes analysed the consequences of the pollution by chlordecone (an insecticide still used in 1993), both from a budget point of view and on other produce. The Cour des comptes would like to see the payment of aid linked to compliance with environmental regulations, to which the "sustainable banana" plan should contribute.

All the findings led to questioning the suitability of the agricultural development model used for these departments.

# Agricultural support policy in the Overseas Departments

## Recommendations

- ➔ Redeploy the aid by favouring the diversification of products and processing circuits, with an objective of reducing imports ;
- ➔ Take into account the “carbon footprint” in the economic reasoning, with a view to favouring a more endogenous development of productions ;
- ➔ Link the payment of aid to strict compliance with environmental regulations, and, generally, to better targeted sustainable development objectives ;
- ➔ Conduct a follow-up of the “chordecone plan” jointly with the ministry of health, in particular with respect to the impact on agriculture and aquaculture ;
- ➔ Improve the integration of sectors between producers and the processing industry with a view to respond to local consumption and develop advertising in favour of these sectors ;
- ➔ Use the real property control tools, notably those stipulated in the Law of 27 July 2010 for the modernisation of agriculture and fishing ;
- ➔ Require the ODEADOM to prepare a report on the Overseas Departments’ agricultural aid, as stipulated by the rural code ;
- ➔ Favour extending the beneficiaries of the special procurement treatment, in particular in the animal feed sector ;
- ➔ Entrust ODEADOM with the payment of all the POSEI and related national aid, while reinforcing its control over investigation and liquidation, for each of the mechanisms concerned.

## 16 A first assessment on outsourcing activities at the ministry of defence

Outsourcing aims to contract out to specialised companies tasks previously performed internally in order to enable the refocusing of activities on the so-called “core business” missions and obtain service of an equal or a higher quality at a lower cost.

### Outsourcing, a more frequent practice

The ministry of defence, which must be able to face external crisis situations, traditionally produced most of the services it needed internally. The discontinuation of the draft led to a first wave of outsourcing (for ancillary tasks in particular). This movement accelerated with the discussions related to the ministerial reform strategy (2003), followed by the general review of public policies (revue générale des politiques publiques or RGPP) in 2006.

This policy takes on a particular dimension at the ministry of defence as it is carried simultaneously in all the reforms which are otherwise engaged: jointness of forces, overhaul of the territorial establishment of the units, creation of defence bases, adaptation to the new operational format approved following the works of the White Paper on

defence and national security published in 2008.

Several sectors of the ministry which could be the subject of major outsourcing, likely to concern numerous jobs, have been identified.

### First assessment on outsourcing

The Cour des comptes has examined more than ten cases, their methods, costs and benefits.

The outsourcing carried out did not reduce the operational capacity of the armies but, the reality of economic gains that such activities provide seems difficult to assess. Important progress remains to be accomplished by the ministry to use outsourcing wisely and efficiently, in particular in terms of cost analysis and separation of the “core business” activities.

### Five conclusions may be drawn :

1. The outsourcing of the defence ministry continues to have limited budgetary impact: Approximately €1.7bn in 2008, which is a little over 4% of the ministry’s budgetary appropriations

# A first assessment on outsourcing activities at the ministry of defence

(excluding pensions). The development of outsourcing since the beginning of the decade is real; however, the near doubling of the volume of expenditures recorded between 2005 and 2008 corresponds for the most part to changes in scope. The externalisation level of the ministry is slightly lower than that reported by the German ministry of defence (5% of budget) and below that reported for the United Kingdom (25%).

2. The on-going outsourcing activities do not challenge the operational capacity of the armies. They are even sometimes indispensable for the accomplishment of missions, notably in terms of strategic transport (92% of tonnage transported is as part of outsourced contracts). The armed forces must specify what “core business” is in order to clearly determine the scope of “outsourcable” activities without running the risk of facing one day operational difficulties.

3. The outsourcing activities realized had no material impact on the staff. The projects identified under the RGPP could, conversely, affect more than 16,000 positions. To ease their implementation, the ministry has requested the inclusion in Article 43 of the Law of 3 August 2009 of provisions aimed at facilitating the transfer of public personnel toward the service providing businesses.

4. The participation of the SMEs in the process, an objective made known by the ministry, is not currently measured. Moreover, it appears problematic to reconcile this participation with the objectives of economic streamlining, which is more favourable to large groups.

5. The reality of economic gains is difficult to assess. The absence of cost accounting makes it impossible to evaluate the cost of production under state-controlled management and prevents comparison with the cost of outsourcing. Progress has been made, but too many studies do not yet distinguish between the gains related to rationalisation those generated by externalisation alone. This distinction is however indispensable, particularly when the outsourcing causes the parties to run the risk of lasting loss of purview.

## Outsourcing activities could lead to gains

Subject to the reservations presented, outsourcing activities could facilitate the reorganisations that would otherwise be difficult to accomplish (civil vehicles of the ministry), or delicate when they relate to activities mobilising sizeable personnel (security), because of a significant difference in terms of remuneration compared with the private sector.

# A first assessment on outsourcing activities at the ministry of defence

Conversely, the examples analysed call for prudence when they primarily concern equipment: Thus, small gains are expected at Dax (public private partnership for the supply of helicopters for the school base), while surcharges are visible in the lease, with option to purchase, of the A340 of the Air Force. Yet, in the current budget context, using outsourcing to realise heavy and immediate investments for which budget financing is not available, at the price of the payment of sustainable rent flows, may be very tempting. The multiplication of outsourcing activities and partnership contracts for heavy operations would contribute to reducing the budget leeway, by rigidifying over the long-term the operating expenditures (title 3 of the budget). Furthermore, certain transac-

tions only offer economic advantages due to third-party revenues whose realisation is uncertain.

Also, regardless of their nature, to be fully justified, outsourcing activities must be based on their own merits.

## Recommendations

→ Clarify the notion of “core business”, as well as that of “pillar” when reference is made to them to justify the use of supplemental outsourcing activities ;

→ Develop solid preliminary cost accounting which is essential to the

start of an outsourcing process in order to be able to judge each project on its own merits ;

→ Reinforce the analysis and management capacities of the ministry.

## 17 Management of the Rhône-Alpes ski area

Major resorts such as Val d'Isère, Tignes, Avoriaz, Val-Thorens, Les Ménuires, Courchevel, Méribel, Les Arcs, La Plagne, Chamonix, medium-altitude mountain resorts such as Les Gets, Les Sept Laux and small resorts, La Chapelle d'Abondance, Montricher-Albanne/Les Karellis, Villard de Lans made up the sample in this enquiry. These resorts represent 80% of the turnover of alpine resorts and 80% of French winter business activity.

### Multiple players

Several entities are involved in the management of the ski areas: Communes, ski lift operators under direct or delegated state-controlled management, tourism offices, leisure, vacationing and well-being infrastructures, mixed ownership event organisers.

With respect to the sole management of ski lifts, the dominant trend has been however to delegate to private companies, whether mixed ownership or more frequently private companies. In fact, the ski areas often escape the control of local communities which must assume wide-reaching missions and combine several types of logic - industrial, commercial and territorial.

### Renegotiation with high stakes

The soon to expire thirty-year contracts, signed in application of the Mountain Law of 9 January 1985, now constitute a vital stake for the local communities to which they were assigned. The issue of their renewal or direct management will be raised.

It would be in the interest of the local communities to join forces and face the united private operators in order to constitute larger groups. The local authorities, predominantly isolated, are often weakened in their relationship with the assignees. Thus, some of them are unable to obtain information that would help them to grasp the effect of the choices made in price terms, notably in relation to commercial innovations.

### Multiple risks

A financial risk weighs on the local communities, in a context of budget difficulties: in addition to existing agreements, the local communities sometimes are obliged to assume large scale investments, but also facilities related to event organisation, without the assignees, which benefit from their impact in

# Management of the Rhône-Alpes ski area

terms of guest occupancy of the station, contributing to their financing.

At the same time, the resorts must deal with the development of both summer and winter practices and respond to a demand further directed toward vacationing and leisure, inducing new expenses in addition to the special charges for personnel and equipment related to the traditional activity.

Environmental risks must also be taken into consideration, notably for the new amenities whose integration into

the landscape becomes a requirement. There is also the issue of using machine-made snow.

Finally, local communities must manage a social risk, closely related to their capacity to offer local employment to the population, predominantly in the area of tourism. A delegated management of their ski areas consequently limits their ability to influence local employment.

## Recommendations

→ Invest to remain competitive, measure the financial risk of commitments and carry out a comparative analysis to select the best management method (direct or delegated) of the amenity depending on financial capacity ;

→ Unite by joining forces with the local communities managing neighbouring ski areas, to reach a balance with respect to potential vendors, many of whom are already grouped together ;

→ Implement a multi-annual investment plan ;

→ Provide, in the contracts with the assignees, an incentive clause guaranteeing to the assignees a benefit in continuing the modernisation of

equipment, even in the last years of a contract ;

→ Establish specific inventories through joint surveys of the goods allocated to operations, by separating the goods that would be returned for free to the local community at the end of the contract and those that may be taken over by the latter ;

→ While aiming to satisfy the needs of users and building up the loyalty of the customer base, interested both in authenticity and relaxation, show prudence before starting costly diversifications of activities, be they winter or summer activities ;

→ Fully integrate the environmental concerns, and, generally, those of sustainable development, in the preparation of projects and making of decisions.

## 18 Territorial continuity with Corsica

Since 1976, the territorial continuity with Corsica principle has made it possible to reduce the constraints of insularity.

### The bodies involved

Since 1991, the territorial community of Corsica (collectivité territoriale de Corse or CTC) has replaced the Central Government in defining the public service obligations (obligations de service public or OSP) on service lines of its choice. Via its Corsican transport office (office des transports de la Corse or OTC), it signs agreements with each of the companies that provide public air or maritime transport.

An allocation known as territorial continuity allocation (dotation de continuité territoriale or DCT) of a current amount of €187m is allocated every year by the Central Government to the CTC which retrocedes it to OTC. The latter then distributes it among each mode of transport in order to finance obligations made to carriers to ensure regular high-quality service while applying lower fares for certain categories of passengers, including residents of Corsica. Two mechanisms may then exist: the delegation of public service or social aid.

The global economy of the principle of territorial continuity experienced significant transformations between 2001 and 2009

The total number of passengers that entered and exited Corsica on air or maritime routes under the OSP increased by 30%, from 4m to 5.2 million. This increase was for the most part concentrated in the maritime routes between Corsica and Toulon managed under the “social aid” system, as a result of which the OTC has to repay a lump sum per passenger entitled to a reduced fare.

The expenses in favour of contracting companies increased sharply

They exceed the amount of the DCT paid by the Central Government, the financial reserves of the OTC, which totalled more than €40m in 2001, are now exhausted.

Several reasons explain these financing issues aggravated by the freeze of the DCT, which has not seen an increase since 2009 :

- The significant increase in the compensation per air passenger in 2003,

# Territorial continuity with Corsica

which made it possible to restore the financial balance of CCM, a mixed ownership company of CTC ;

-the increase in “social” aid paid per maritime passenger, directly related to that of the number of passengers transported under this system ;

-the increase in compensation allocated to the assignee maritime companies kept on routes serving Marseille, despite a relatively sizeable drop in the number of passengers transported on the assigned lines ;

-the decrease in low-income fares, the impact of which was not measured with respect to the global economy of the principle.

## Management failures

The CTC, an organising authority, was incapable of adapting the agreements regarding, or contents of, the public service obligations to the developments of traffic or anticipating the financial consequences.

The reports of the carriers, often too succinct, were not properly used and the number of passengers receiving fare reductions is not precisely known.

The specifications of the successive contracts during this period and the negotiations which preceded their signing did not sufficiently take into account the developments that were however perceptible for several years.

The management of delegation contracts, notably their preparation and signing, did not make it possible to optimally apply the rules of competition either.

At the end, due to lack of motivation and the absence of evaluation instruments, the CTC did not prepare the strategic decisions necessary to develop a system that had been showing signs of exhaustion for several years.

## Recommendations

➔ Clearly define the role of the transports office in the design and management of territorial continuity, both maritime and air, and implement a true supervision of the establishment ;

➔ Reinforce the controls of the implementation and execution of the OSPs by the companies ;

➔ Implement evaluation tools needed for a global and objective debate on this topic ;

➔ Favour conditions of competition through greater anticipation of the launch of public utility contract awards.

## 19 Government workers at the Ministry of equipment and civil aviation

Out of the 8,000 government workers at the ministry, 2,200 were recruited without legal basis

In 2009, out of 46,300 government workers on active duty at the Central Government's administrations, the Ministry of equipment and civil aviation employed 8,000 including fleet and workshop workers (7,200) and civil aviation workers (800).

Close to 5,000 workers are in fact assigned to equipment fleets and workshops, notably for the operation and maintenance of roads and for the maintenance of vehicles and aircraft. Following the 2004 decentralisation laws, these employees have been, since 2010, transferred to the local communities, under conditions that reflect a certain lack of preparedness.

The other 2,200 workers theoretically assigned to fleets and workshops were in actuality employed by other departments under irregular terms.

The roughly 800 workers reporting to the general directorate of civil aviation are, for their part, divided into 42 occupational families within which they hold positions that are very diverse

(logistics operator, driver, painter, IT specialist, warehouse keeper, AC specialist, photographer, etc.) which, in the other public service areas, are for the most part held by permanent or contract public employees.

These government workers enjoy the great advantage of practically being civil servants

The advantages of holding a non-incumbent position within the civil service are multiple, in terms of recruitment, promotion and remuneration. Moreover, these workers are enrolled in a special retirement plan which provides them with pensions 30% higher on average compared to that paid to permanent public employees holding comparable positions.

The management of these government workers presents numerous irregularities of a serious nature

For several years, promotions have been awarded in an abusive manner, without cost control and in breach of the rules of balance of the pyramid of a

# Government workers at the Ministry of equipment and civil aviation

hierarchical organisation structure. Moreover, for the fleet and workshops workers, promotions from journeyman to master journeyman are awarded in the year prior to retirement, while this practice is explicitly barred by law.

## Practically all the components in the remuneration of civil aviation workers must be reviewed without delay

In fact, fictitious overtime is concealed in the basic salary of civil aviation workers, irregularly increasing their total pay (by up to 400 Euros per year). This disguised system has cost the Central Government €3.6m since its implementation in 2002.

In the civil aviation services, managing two workers is sufficient to be named team leader and as a result obtain a salary increase of 20%, without regulatory basis for such increase. The Cour des comptes also found several irregular supplemental remuneration components granted to those employees, as well as an overtime rate unduly paid at 35% extra, before any legal increase.

The civil aviation services were unable to report the average salary cost per pay grade for their workers.

## These practices are at the root of a major financial abuse

Between 2006 and 2009, the payroll of the fleet and workshop workers remained unchanged with the workforce decreasing by 11% and that of the payroll of the civil aviation workers rose by 29% with the workforce decreasing by 4%.

The human resource management of these employees is seriously deficient and benefits are awarded with no employee evaluation whatsoever and without seeking any productivity.

# Government workers at the Ministry of equipment and civil aviation

## Recommendations

→ Put an end to any recruitment of government workers in the departments of the ministry of equipment and civil aviation ;

→ Identify, within the HRD of the ministry, a single department in charge of the management of the government workers, regardless of their posting ;

→ Review the entire system of bonuses, allowances, and overtime pay applicable to this category employees, on the one hand discontinuing those that seem exorbitant, and on the other, giving to those that may be kept a regular legal basis ;

→ Discontinue the practice of the so-called 'tip of the hat' (known in French as *coup de chapeau*) promotions before retirement given to boost pension income and redefine the pyramid structure of the various categories of Government workers, by application of promotion quotas negotiated with the budget department ;

→ Regularise the situation of the some 30% of the workers who are not assigned to a fleet or workshop ;

→ Reform the IT, management and pay system of the DGAC to discontinue any irregular practice and so that that department may be in a position, as soon as possible, to produce reliable data in terms of the management of its workers ;

→ Reorganise the management of human resources of the directorate general of civil aviation in order to make it more accurate and put an end to the practice of secret payments for fictitious overtime.

## 20 The “one-quarter fare” of military servicemen

Military railway travel is at the source of the highest Central Government contribution to French National Railways (SNCF) (€192.4m in 2009) which has been experiencing the most dynamic growth for around ten years (+34.5%).

### The “one-quarter fare”: a relic from the first railway concessions

Since the 19th century, a 75% fare discount, known as “one-quarter fare” has been given to the military servicemen for their railway business or personal travel. This fare has been offset by the Central Government’s budget since 1949, in accordance with the methods currently set in a framework agreement and an agreement signed in 2006 and 2007 by and between the Central Government and SNCF.

Military servicemen are entitled to this fare discount and to the public financing of their personal travel as a benefit that is incidental to their status: they see it as a compensation for the special constraints related to military life, which requires significant mobility for work and, often, being away from the family home.

### Uncontrolled increase of expenditures

Whilst the charges approved for this purpose were rapidly growing, the Ministry of defence did not find the means to control their increase or to efficiently prevent fraud, which was probably under-valued. Travel passes are still printed on paper; blank passes stored on the units’ premises are a potential source of distribution of counterfeit passes; some military personnel do not return their passes when leaving the army.

Moreover, the information on the variables related to the travel passes and to the Central Government’s offsetting of this charge - number of passes, actual headcount, amount of expense - is compartmentalised, and internal control remains inadequate. The implementation of monitoring tools relative to the issuance of travel passes is so recent that their inventory did not become reliable until 2009. No systematic comparison between the number of military personnel in active duty and the number of travel passes currently valid is possible. The ministry of defence does not know the exact number of military personnel authorised to have a travel pass; it cannot therefore compare that number to that of currently valid passes. Furthermore, the clauses of the

# The “one-quarter fare” of military servicemen

agreement authorizing the Central Government to carry out checks on the production of the SNCF electronic data included in the calculation of the charge to be offset have gone unheeded.

## Too many beneficiaries

The field of the “one-quarter fare” beneficiaries is large as it includes all military servicemen in active duty as defined by their statute. This situation concerns not only the military servicemen holding positions with the ministry of defence and the national Gendarmerie, but also those assigned to other government administrations or public institutions, or even private companies. It also concerns the generals of the so-called “2nd section” who, having claimed their retirement benefits, remain available to the ministry of defence and, as such receive active duty pay and are entitled to a travel pass for life.

One could wonder whether extending the scope is pertinent: the ministry of defence finances the business and personal travel of military servicemen assigned outside of its departments, in relation to which results a transfer of charges that cannot be quantified with various public or private operators. In principle, intended to compensate for the constraints of military life, the “one-quarter fare” in actuality also benefits people who are not subjected thereto.

## The necessary reform of the “one-quarter fare”

The ministry of defence, now aware of the need to reform the system, plans to modernise the form of the travel pass (smart card). This would make it possible to remotely disable the travel passes of officers that have severed their links with the army.

Being able to differentiate between army and personal reasons for travel is important. This objective could already be reached if the Home and Defence ministries issued a preliminary travel order for any travel of the military servicemen on army business. The use of a travel pass being thus, de facto, reserved for personal travel, it would then be possible to know the value of the benefit-in-kind granted. At that point, nothing would hinder any longer the re-examination of the basis for the exemption from social and tax withholding of this benefit-in-kind, whose overriding nature had been underscored by the Cour des comptes in 2009.

The “one-quarter fare” is moreover part of an uncertain environment: The opening up of international railways to competition may lead, in the future, to challenging the legality of its being offset by the Central Government.

# The “one-quarter fare” of military servicemen

## Recommendations

→ Systematically re-examine the field of beneficiaries of travel passes, in order to reserve its award to military servicemen experiencing specific constraints ;

→ Re-examine the basis of the default of valuation of the benefit-in-kind consisting of the “one-quarter fare” for travel of a personal nature, together with the ministries of budget and civil service, with a view to

including it in the basis for social security and tax withholdings ;

→ Continue the modernisation of travel passes which has already been started and improve internal control.

Further, the ministry of defence must examine the pertinence of preserving the “one-quarter fare” system.

## 21 Particularities of the remuneration of military reserves

### A difficult-to-justify tax exemption

Remunerations paid to reservists are exempt from tax on income. The tax exemption for military reservists affected, in 2008, more than 60,000 persons (including the gendarmerie), for a tax expenditure of €6.4m. To justify this exemption, it is no longer possible to claim the need to compensate the obligation to participate in long compulsory instruction periods since this obligation ended with the Law of 22 October 1999. Moreover, the remuneration of reservists cannot be treated as a payment for expenses eligible for an exemption.

### Maintaining the salary of public employee-reservists

Public employees who are absent in order to participate in activities of the military reserve still receive their salaries for up to thirty days per calendar year.

This benefit increases the cost of the reserve by several million Euros and certainly explains the overrepresentation of public employees in the military reserve.

## Recommendations

→ Revisit this exemption, which runs counter to the principle of tax equity between active duty and military reserve ;

→ Reconsider the advantage granted to public employees and not to reservists in private employ.

## 22 SOVAFIM: An operator with no real usefulness

SOVAFIM, a real estate management company (société de valorisation foncière et immobilière) is a société anonyme whose capital is wholly-held by the State. It was created in 2006 in order to speed up the sales of the real estate of Réseau Ferré de France and to generate from these transactions capital gains intended to be up-streamed to the Central Government's budget in the form of dividends. SOVAFIM was designed on the basis of a short-term project and without clear prospects. Its foremost mission was to bring to the Central Government €350m in budget revenues in 2006 and the same amount in 2007.

No other transfer of goods from the RFF having occurred since, the legislator broadened the field of application of SOVAFIM several times, with the scope to extend its mission to the valuation of real property belonging to the Central Government and its public establishments. However, between 2007 and 2009, the activity of SOVAFIM resulting from these provisions was limited to three one-off transactions, carried out at the Central Government's request.

The ambitions of the senior managers of the company, who had intended

to make it a real estate operator likely to invest €1bn in five years, have led to nothing. An autonomous development project was challenged because of the lack of recapitalisation by the Central Government shareholder. The transfers of real property for SOVAFIM, limited in number, did not offer it real development prospects.

The business of SOVAFIM became very limited (€4.5m in turnover in 2009) and therefore not very profitable, return on equity (1% in 2009) no longer paying for the risk of the business. Its dependence on the decisions of Central Government, which determine its level of activities, limits its leeway de facto it has become nothing more than a division of the administration. Having after all as its sole customer and contact the Central Government itself, this company, whose financial area is too narrow to enable it to acquire a material portfolio of goods to manage and which sub-contracts the majority of its sales activity to brokers, is an intermediary structure without a customer and without a long-term project.

### recommendation

→ Discontinue the existence of this company with no actual usefulness.

## 23 Paris Habitat's new headquarters

Paris Habitat, France's largest public housing authority (more than 117,000 housing units) was based in the fifth arrondissement of Paris (Cardinal Lemoine Street). But the building being too small to accommodate all the staff, several directorates had to be housed in rented premises.

The board of directors, having resolved to have all staff members work on one site, decided to sell this building in December 2003 to acquire one which used to be the headquarters of *Le Monde*, the French national daily. The building, also located in the 5th arrondissement (Claude Bernard Street) in a condominium, could however not house all of IT activities.

### Rampant costs and delayed execution due to poor project monitoring

The cost of the project rose from €90m to €139.4m between the initial plan submitted to the board of directors in March 2004 and the May 2008 estimate produced one month before Paris Habitat actually moved into the new headquarters, which also meant delayed execution: four and a half years instead of two years as initially planned.

Drifting costs and failure to meet deadlines can be ascribed to poor project monitoring which implied many changes that could have otherwise been anticipated. In this respect, wavering implementation in the removal of asbestos removal from the building provides a good example.

### Unsatisfactory building performance with respect to sustainable development

After one year in use, despite Paris Habitat's outspoken commitment to the goals of sustainable development, the performance of the new building started causing concern as electricity and heating costs almost doubled by comparison to the three previous sites.

### The results of long-term total-cost approach

Paris Habitat's top management insists that, in view of the expenses avoided by leaving the former premises, the "net" cost of the project should range between €29m and €34m. According to the assessment produced by the chambre régionale des comptes, which is based on the total cost of the

# Paris Habitat's new headquarters

new headquarters over 40 years, the “net” cost amounts to €55m, the equivalent of the cost of 240 council flats.

An estimated imputed rent calculated on the whole operation, so as to make comparisons possible with the actual rents that a real-estate promoter could charge, has displayed figures above the highest rents in the 5th arrondissement and equalling those of the most expensive Paris areas for office building leasing.

For a project of this size, it is regrettable that such a large organisation,

whose trade is building and administering housing units did not, from the very beginning, take up the option based on long-term total-cost approach. For instance, several options could have been assessed and the requirements related to sustainable development could have been appropriately met. But as Paris Habitat concedes, the implementation of this approach remains crucial to best monitor and curb expenditures for the whole period of use of the building.

## Recommendations

► In the conduct of major projects, the approach based on long-term total cost should be taken from the outset. On the basis of long-term total-cost approach, the available options can be assessed and the requirements associated to sustainable development can be appropriately met with.

► The same approach should be taken during the whole period of use of real property to better monitor and control costs in the interest of both public money and environment.

## 24 Exemptions of allowances paid to sports referees and judges: An ill-adapted tool

The Law of 23 October 2006 specified the legal treatment of 196,000 sports referees and judges and defined the terms of tax and social security exemption for the allowances that are paid to them. It stipulates that their allowances are exempt from payroll taxes – employer and employee – for up to 14.5 % of the annual ceiling of social security, i.e. €5,020 in 2010. They are exempt from tax on income if their annual amount is below that ceiling.

### An unreliable declaration system

The declaration system selected by the law presents clear limitations. At the tax level, referees themselves – and not the organisations that pay them (sports clubs, sport federations, competition organisers) are indeed responsible for declaring any allowances that exceed the legal ceiling. In terms of social security contributions, sports federations and professional leagues must theoretically declare the allowances paid: however, the referees are not required to notify them until after they have exceeded that ceiling, and they only submit upon request the forms on which they have to

list all of the sums received. In practice, this declaration system depends therefore on the quality, the frequency and completeness of the information submitted by the referees: the sports federations and the professional leagues are not in a position to ensure at any time the proper application of the exemption provisions, contrary to their responsibility which is defined by the law.

In addition, diverging interpretations appear in the application of these provisions. Thus, while the tax exemption should only concern remuneration amounts below the ceiling, certain federations - such as the French Football Federation - interpret in an unorthodox manner the provisions of the Law of 23 October 2006 by also granting this exemption to referees whose allowances are over €5,020 per year.

### A poorly monitored system

Any attempt to quantify the fiscal and social cost of the system is fraught with uncertainty, not only because of the declarative nature of the allowances received, but also because of the lack of awareness of the exact number of refe-

# Exemptions of allowances paid to sports referees and judges : An ill-adapted tool

rees and their status (professional or volunteer, full time or part time). Under these circumstances, the assumptions made by the administration to quantify these tax and social expenditures are not uniform. All in all, the overall cost quantification differences for this system – between €37.5m and €134m according to the assumptions applied by the various departments and agencies concerned – shows defective monitoring and the resultant inability of Central Government to ascertain the impact of these exemption measures. And yet, the cost of the exemptions granted to the referees represents, according to the assessments, between 15% and 54% of the “Sport” budget programme (whose appropriations totalled €246.7m in 2010).

## No efficacy measurement

It is difficult to establish a direct link between the change in the number of referees and these exemption measures. In fact, while the overall cost of this system is high - regardless of the figures used - the pecuniary benefit it provides individually to each referee is limited and could not represent alone sufficient incitement to explain a notable increase in the number of people wishing to become referees. Furthermore, an important portion of amateur referees is not affected by these exemption measures: the volunteer portion which by

design, is not concerned by it, is estimated by the AFCAM at 40% of the body of referees, i.e. approximately 78,000 referees in 2010.

In the end, the Law of 23 October 2006 clarified the status of the sports referees and judges. However, the absence of a clearly defined objective for these exemption measures is coupled with absence of management and evaluation of the system by the sports department. In fact, the Central Government places with the sports federations the responsibility to manage the terms of the remuneration of the referees: the implementation of an exemption system under the Law of 23 October 2006 was not accompanied by any analysis of the allowance system of the referees.

Under these circumstances, the social security and tax exemption systems created by the Law of 23 October 2006 are not in a clear and consistent manner part of the implementation policy of the Central Government in the sports area: none of the objectives set by the “sport” budget make it possible to consider that a portion of the allowance of the sports referees and judges should be financed by the budget of the Central Government and by the general social security system.

# Exemptions of allowances paid to sports referees and judges: An ill-adapted tool

## Recommendations

The Cour des comptes underscores the essential role played by the referees in the teaching and organisation of sport activities, as well as the considerable difficulties encountered in the performance of their duties. It notes however that the situations with which they are faced are very dissimilar and should call for different solutions.

Under these circumstances, the fundamental ill-adaptation of this generalized exemption system leads the Cour des comptes, considering the disproportionate size of its overall cost compared to the budgetary appropriations of the “Sport” programme, to recommend it be discontinued.

## 25 The national museum of sport : A poorly monitored project

The museum of sport, a simple department of the ministry of sports since its creation in 1963, was only transformed into a public administrative institution in March 2006.

Despite having close to 600,000 objects and documents that form one of the largest collections in the world on the history of sports, this museum remains not very well known and not often visited. At the completion of its audit, the Cour des comptes established three findings which explain this paradox :

### Late and muddled institutionalisation

The transformation of the museum into a public institution was labour-intensive. One year was needed for the new institution to acquire a board of directors and operational accounting. During that time, the manager of the museum turned to a private company, with which he had signed an agreement in March 2005, to organise travelling exhibitions and recruit representatives, while it did not have the signature authority to do so.

The departments of the ministry of sport did not exercise their oversight responsibility in an adequate manner. While a general audit report showed irregularities as early as October 2006,

the agreement was not terminated until August 2007, at the request, not of the ministerial departments, but of the financial auditor.

### No permanent site

The national museum of sport never had a permanent site. In 1979, this “virtual museum” was housed, temporarily, within Parc des Princes, but not until 1988 were “national galleries” of the museum inaugurated, which made it possible to have a permanent exhibition open to the public until 1997. Nevertheless, the preparation for the Football World Cup in 1998 had as a consequence a squeezing of the premises of the museum and the closure of its exhibit halls. Several museum site projects were then envisaged.

### An unclear strategy for the collections

As a result, since July 2008, the museum has only been able to display 350 objects on the premises, named “showcases”, located on the ground floor of a building rented by the ministry. This presentation only attracts a limited audience (on average, less than 50 visitors per day). Numerous difficulties and notable surcharges affected this site.

# The national museum of sport : A poorly monitored project

While it should have been completed in early 2006, the “showcase” was not ready until June 2008. The initial budget (€3.5m) was considerably exceeded (by €4.4m). At the end, the presentation of each of the 350 objects on display cost more than 12,000 Euros.

The future use of the “showcase” remains uncertain. The ministry has mentioned a project of a museum site in Nice, within the “Cité nationale des sports”. A memorandum of understanding was signed in May 2010 with the city of Nice, but that memorandum does not address the question of the cost of the “showcase” whose financing was supported by the ministry for what was to be a temporary use.

One last difficulty concerns the collections of the museum. They indeed represent the history of all the sport disciplines, shown through competitions, leisure practices and the place of the sport phenomena in society. This direction explains the presence of objects that are sometimes unique, such as an advertising Tour de France truck, or repetitive, such as numerous jerseys and

accessories signed by champions. The extent of these collections requires the definition of an acquisition strategy.

## First steps forward

Many years were needed however for the museum to start defining a cultural and scientific project, which was not approved by the board of directors until November 2010.

The current management of the national museum of sport is now trying to overcome the deficiencies of the past decade. The performance agreement signed in February 2010 with the ministry of sport, the memorandum of understanding signed in relation to the site at Nice or the preparation of a scientific and cultural project all testify to this. All of these steps have nevertheless yet to materialise: failing that, calling into question the future of this museum will be inevitable.

## Recommendations

➔ Find the appropriate solution to reduce the very high costs that the ministry of sport has committed in the “showcase” which represents a casual installation that has lost its purpose considering the prospect of a museum site in Nice ;

➔ The failure of the announced advances to materialise immediately calls into question the future of the museum..

# Executive summaries of volume 2

Implementation of the  
recommendations of the  
financial courts

## 26 Public water and sanitation services: Encouraging developments

In its thematic report of 2003 dedicated to the management of public water and sanitation, the Cour des comptes had recommended an inter-communal management, in order to strengthen the economies of scale, financial transparency and the management of these services. Seven years later, despite the noted progress, important streamlining efforts remain to be accomplished.

### Implementation of the recommendations of the Cour des comptes: the advances initiated by Central Government and Parliament

Among these advances, the Decree of 14 March 2005 has standardised the presentation and the content of the annual operating income account (compte annuel de résultat de l'exploitation or CARE). The law of 30 December 2006 on water and the aquatic environment for its part has made budget planning and management easier. The obligations of the assignee

were also strengthened, notably in relation to the renewal of facilities. Finally, the law created a system of information about the public water and sanitation services (système d'information sur les services publics d'eau et d'assainissement or SISPEA).

### The efforts of the territorial communities

The efforts engaged to improve the management of water and sanitation services can be seen in the development of expert capacities. They make possible a greater transparency in the choice of the management method, a decrease in the length of delegation contracts, faster return to competition as well as inclusion of contractual clauses allowing real control over the performance conditions.

### Advances yet to be made: excessive number of services

Deficiency remains, notably in terms of costs, due to the excessively high number of water and sanitation

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(1)Office national de l'eau et des milieux aquatiques – National office of water and aquatic environment

# Public water and sanitation services : Encouraging developments

services. According to ONEMA (1); France totals 35,000 of these services, a number unmatched in Europe. The laws adopted since 2003 to favour their combination did not modify the territorial grid pattern. This excess creates difficulties for funding SISPEA, its reliability and completeness criteria being rather incompatible with the current fragmentation of structures.

## A necessary rebalancing of the relationships between local authorities and the assignees

Due to the poor knowledge of the networks, the local authorities do not have true control over the renegotiation

of contracts, which explain the low rate of operator changes.

Likewise, the financial reports of the assignee, often short and incomplete, do not allow for a comparison between actual and estimated results. The water and sanitation syndicates and smaller authorities were traditionally supported by the Central Government services in terms of public engineering, but these services are slated for complete discontinuation by 2011.

In conclusion, only a drastic reduction in the number of structures and the pooling of resources and skills will make it possible to improve management and rebalance the relationship between the local authorities and the public service assignees.

## Recommendations

- ➔ Make the opening of their own cash accounts mandatory for all public service contract holders (délégation de service public or DSP) ;
- ➔ Authorise the investment of surpluses by applying the provisions of Article L.2224-11-1 of the CGCT ;
- ➔ Implement efficiently the new accounting standards from instruction M49 applicable to water and sanitation services ;
- ➔ Determine by regulatory means the content and presentation of the CARE contractor, to render it comparable to the estimated operating account appended to the contract ;
- ➔ Postpone until 30 September the presentation of the annual report on the price and quality of the service, in order to enable the organising authority to prepare an expert opinion based on the information provided by the contract holder ;
- ➔ In order to have a database on water pertinent for the entire territory of France, improve the operations of the information system for the public services of water and sanitation by establishing a requirement to submit all the performance indicators for the public services with the greatest weight nationally.

## 27 Agencies receiving charitable funding

### The mission entrusted with the Cour des comptes by the legislator

The legislator wanted, in 1991, for the Cour des comptes to be able to “audit the account of uses of funds received from the public as part of campaigns conducted on a national scale [...] in order to check the compliance of expenditures [...] with the objectives pursued in the charitable funding received.”

From its initial inquiries, the Cour des comptes did not stop at the simple accounting audit of the account of sources and uses of funds. It considered that examining the actions conducted and their management and the procedures implemented and management methods used was part of its mission. Checking the compliance of expenditures incurred with the objectives pursued by the campaigns presumes, in fact, checking, from the initial phases, the information provided to potential donors on the use that will be made of the funds collected, and, in the final stages, of the nature, performance methods and results of the actions financed.

The Cour des comptes was also determined to report on its audit to the

donors by systematically publishing the findings of its investigations.

### Recommendations with widely successful consequences

Since 2004, the Cour des comptes has conducted various types of inquiries to monitor the implementation of its recommendations:

1. New comprehensive controls (three cases): two out of the three reports published between 2004 and 2007 noted considerable changes or material improvements ;

2. Targeted follow-up inquiries (five cases): the reports published in June and September 2009 showed that the associations audited had largely taken into account the recommendations of the Cour des comptes, with the notable exception of the Animal protection society (Société protectrice des animaux or SPA). The official receiver of the SPA, appointed as a result of the audit, reports on the work conducted in this report ;

3. An audit of the uses of the remaining balance of the funds collected allocated to the victims of the tsunami of 26 December 2004: out of the 29 agencies that were reviewed again in 2009, 19 had their 2006-2008 “tsunami” expendi-

# Agencies receiving charitable funding

tures declared compliant with the purpose of the collection, without qualifications

The Cour des comptes has thus found that the implementation of its recommendation has been largely successful.

It also used its latest publication to issue a reminder that, in the event of an allocated collectio :

- All donations received must, until exhausted, be treated in the books as dedicated funds ;

- they must be used in accordance with what was announced to the potential donor, therefore – unless expressly otherwise stated in the call for funds-exclusively for the social mission ;

- if the funds are kept for a sufficiently long time by the agency so that their investment could generate interest income, such income must benefit the actions, under the same conditions as the donations originating from the collection.

## Broadening the purview of the Cour des comptes

Article 20 of the Supplementary Budget Act of 30 December 2009 provided for two innovations :

1. It broadened the purview of the Cour des comptes to include auditing the compliance with the objectives of the organisations receiving charitable

funding entitling them to a tax benefit and the expenses financed by such donations, when the annual amount of the latter exceeds €153,000 ;

2. It introduced the possibility to impose a sanction: when it receives from the Cour des compte a declaration of non-compliance, the minister for the budget may now “suspend any tax benefit for donations, bequests and payments made in favour of the agency referred to in the declaration”.

In terms of charitable donations, the Cour des comptes has always had as an objective to audit the respect of the wishes of the donor, and it has considered the donor – or potential donor – as the foremost intended recipient of the works of the Court. It will continue to have this same concern in the performance of its broadened mission that the law has recently entrusted therewith with respect to agencies receiving donations entitling them to a tax benefit.

## 28 The “decrySTALLISATION” of pensions of nationals of territories previously under French sovereign rule

### Pensions whose amount has remained unchanged

In 2010 the Cour des comptes had found that the pensions paid to veterans from the territories formerly under French sovereign control had remained unchanged, both in terms of amount and in terms of legal form, as at the date of these territories becoming independent. This de facto situation, overriding the ordinary law applicable to pensions, was at the source of persistent inequality of treatment, between French nationals and foreigners on the one hand and, on the other hand, between the various nationalities concerned. As a result, the Cour des comptes had recommended an overall alignment of the “crystallized” treatment regardless of whether it affected disability pensions or civil or military service retirement pensions with the French ordinary law treatment.

### Alignment with ordinary law

Following the decision of the Constitutional Council of 28 May 2010

on the first priority question of the constitutionality that was raised before it and the adoption of Article 211 of the Budget Act for 2011, followed by Decree 2010-1961 of 30 December 2010, this recommendation was taken into account.

As from 1 January 2011, all military disability pensions, civil and military service retirement pensions and veteran retirement pensions paid to nationals of countries or territories that were once part of the French Union or of the Community or placed under the protectorate or oversight of France, are calculated based on the ordinary law treatment.

The Cour des comptes will ensure the proper implementation of the new law, notably by informing the potential beneficiaries of the steps they have to take in order to have the index used in the calculation of their pensions revised.

## 29 Financial regulatory authorities

The Cour des comptes audited, starting in July 2006, the three main financial control and regulatory authorities namely the Commission bancaire, the Autorité de contrôle des assurances et des mutuelles (ACAM) and the Autorité des marchés financiers (AMF).

In its Annual Public Report of February 2009, the Cour de comptes carried out a comparative assessment of these three authorities. The global banking crisis that has emerged since autumn 2008 highlighted the crucial role that was to be played by a responsible and appropriate financial regulation system and the responses of the French authorities as part of the principles of action generated internationally, are in line with the recommendations that the Cour des comptes had issued in the course of its inquiries.

Thus, order 2010-76 of 21 January 2010 simplified the control and regulatory structures as the Cour des comptes saw fit and arranged new oversight obligations for the protection of savers, which had been a topic upon which the Cour des comptes had focused its examination.

The banking and financial regulation law of 22 October 2010 has, for its part, completed the substantial progress made in relation to the oversight of systemic risks and the strengthening of the powers of the authorities, whose concrete terms generally satisfy the recommendations of the Cour des comptes.

## 30 Central services in charge of Overseas France

In 2006, the Cour des comptes had noted that the two services of the overseas ministry, the political, administrative and financial affairs directorate (direction des affaires politiques, administratives et financières or DAPAF) and the economic, social and cultural affairs directorate (direction des affaires économiques, sociales et culturelles or DAESC) were providing poor inter-ministerial coordination, while they were managing appropriations representing only a minor portion of those dedicated to Overseas France.

### Creation of the general overseas delegation (délégation générale à l'outre-mer or DéGéOM)

DAPAF and DAESC were placed in May 2007 under the authority of the minister of home affairs, overseas and local authorities, the secretary of State for overseas having final power of decision, as needed. Then, in September 2008 they were replaced with DéGéOM. The set up of DéGéOM was labour-intensive: tight deadlines, late designation of the prefiguration, insufficient support to the personnel, difficulty filling the positions. At the end of 2008, the workforce was significantly smaller than planned; half of it comprising new

employees and the approval of applications was at times problematic.

### Shrinking of the organization

Pursuant to the recommendations of the Cour des comptes, a single central administration department was set up and structured around three functions: coordination of public policies, legal and institutional functions, assessment and outlook.

The majority of the “support functions” was transferred to the competent departments at the ministry of home affairs, with the corresponding positions, which makes it possible to achieve economies of scale. The link between DéGéOM and the other departments of the ministry is now operating properly.

### An inter-ministerial role to be asserted

DéGéOM keeps the management of the “overseas” budget mission, manages numerous subsidies and makes decisions on the civil-status department of Overseas France and on the appropriate military service staff. However, its inter-ministerial drive and coordination function remains fragile: no meetings of the inter-ministerial commission for the

# Central services in charge of Overseas France

coordination of public investments; inter-ministerial secretariat of Overseas France provided by the secretary general of the government; not very clear link with DATAR for the contractual policy.

In addition, serious productivity constraints have been imposed on the delegation, reduced by 83 positions, of which only 46 correspond to the transfer of the support functions, while the relative portion of the higher grade positions did not increase. Neither the number nor the profile of positions made available by other ministries is specified and the inter-ministerial nature of recruitments did not increase. Over these first two years, DéGéOM was faced with the crisis in the West Indies and had to provide complex follow-up of the LODEOM project. Three general delegates succeeded each other and

the minister of home affairs and the Secretary of State for Overseas France were replaced. The DéGéOM departments were not included in the consultative phase of the organisation of the “Overseas Convention”. The cabinet of the minister for Overseas France comprises some sixty employees, including some ten management level employees, compared to the DéGéOM whose workforce has decreased. Inter-ministerial meetings are rarely held in the presence of the delegate general. The relations with several ministries are difficult, the information circulates poorly and certain ministries do not follow the rules and timeframes for reporting matters set by the Prime Minister; others have yet to appoint a correspondent.

## Recommendations

→ Meet the conditions for the DéGéOM to be able to carry out its mission as best as possible :

- Facilitate the recruitment of employees from other ministries ;
- Support its actions by informal disciplinary actions with respect to the

rules of referring matters and systematic appointment of correspondents ;

- Long-term stability in time for its management team.

## 31 Geology and mining research office (Bureau des recherches géologiques et minières or BRGM)

The Cour des comptes examined on several occasions the accounts and management of the Geology and mining research office (Bureau des recherches géologiques et minières or BRGM), an industrial and commercial public institution.

### Criticised management

The previous audit, covering fiscal years 1999 to 2002, during which BRGM exercised mining operator activities, had led the Cour des comptes to address to the appropriate ministers a summary proceedings on three points:

- The need to define the new missions of the BRGM and to ensure its future financial balance ;
- More rigorous management, notably by putting an end to accounting malfunctions related to the difficult roll-out of a software package;
- Financial consequences of the commitment in the building of a nickel processing plant in New Caledonia.

### Significant improvements

The latest audit, for fiscal years 2003 to 2008, showed that the recommendations of the Cour des comptes were largely followed.

The Decree of 20 September 2004 defined the new missions of the BRGM, around three lines: research in the field of geosciences, expert opinions for the public authorities in the same field and international activities. Four-year contracts define the objectives of the BRGM under its new missions. This new strategy has made it possible for the institution to improve its accounts: its operating income has become positive since 2004 and reached €10.6m in 2008.

In addition, the BRGM has improved its management and its accounting software packages now operate properly.

With respect to the risks that the BRGM stood to incur because of its involvement in a nickel plant project in New Caledonia, the institution sold its ownership interest in this project to société de participation minière du sud, a company on which it now holds a claim to the amount of €67.4m, hedged with a provision of €10m. This provi-

sion was found inadequate by the auditors. A residual risk remains therefore in this area.

However, the creation, during the audited period, of a school for applied geosciences seems of extremely limited interest.

## Recommendations

→ Reform the organization of BRGM to create a fully functional financial department and modify the functions of the production department ;

→ In terms of financial matters, improve the internal control and audit procedures.

## 32 Air navigation personnel

The Cour des comptes examined on several occasions the management of the human resources of the general directorate of civil aviation (DGAC): In 2002 (public thematic report), in 2006, and then in 2010. In its annual public report of 2010, the Cour des comptes made a harsh appraisal, notably with regard to the lack of transparency of the organisation of the work which was raising productivity and security issues.

One year after the publication of that report, DGAC ended its most controversial practices and corrected the remuneration system applicable to its employees.

Since June 2010, a verification system shows the control hours actually worked by each employee. This put an end to a system of unofficial absences (known as “clearances”) implemented by the air traffic controllers, in favour of an opaque organization of the work.

Difficulties were experienced locally, but they have remained limited, despite the emotions generated by the implementation of these controls.

These measures constitute a major step forward. Nevertheless, the Cour des comptes had found that the same opacity had prevented the aviation safety department from having the necessary procedures to ascertain the controllers’ aptitude to exercise their profession. One year later, the information available to the safety department is still incomplete.

## 33 The CNRS in the new landscape of research

In its 2007 public report, the Cour des comptes had found that the Centre National de Recherche Scientifique (CNRS) had not managed to redefine its positioning in the rapidly changing landscape of research. In 2010, the Cour des comptes verified the implementation of its recommendations.

### Reformed governance

The decree of 29 October 2009 entrusted the president of CNRS with the general management of the institution. Pursuant to its provisions, a Chief Executive Officer was appointed on 20 January 2010.

The performance contract signed with the Central Government on 19 October 2009 was followed rapidly by action notably with the creation of ten discipline-specific institutes, in early 2010, in the stead and place of the old scientific departments. It however lacks any quantitative financial representations.

### Advances to be pursued

To implement the renewed and balanced partnerships by university site, the functions that will remain within the CNRS must be specified; the CNRS must also acquire the use of up-to-date management methods and tools.

While the accounting modernisation is on the way to completion, considering that the CNRS accounts which have been certified with qualifications since 2008, the budget modernisation has yet to concretize. Only after 2010 were renewed procedures put in place which should have accompanied the implementation of the Constitutional Bylaw on Budget Acts (Loi organique relative aux lois de finance or LOLF). Two questions remain to be solved: the level of the reports and the allocation of appropriations to the research units.

### Partial adaptation of management tools

The assessment systems were harmonised. Interfaces between information systems of CNRS partners in its mixed research units, i.e. 90% of the 1,000 units that make up the Centre, must be created. Finally, the CNRS has a consultative scientific director at the major university sites.

Certain mechanisms creating bridges between research and teaching activities were set up, but at this stage they concern only limited personnel. At the same time, the integration of seconded teaching researchers did not evolve and the results in terms of recruiting teachers/researchers by the CNRS are worrisome.

# The CNRS in the new landscape of research

## Management of research units: a reform to be conducted urgently

In the mixed units, i.e. in 90% of laboratories, the CNRS only gets a consolidated vision of its human and financial capital once every four years. Despite a clearly stated priority, the achievements to date are particularly

limited. This presumes that the question of personnel assigned to tasks at CNRS be solved. The new system will also have to enable the institutions to ensure the financial steering of their management.

## Recommendations

→ Active participation in the emergence of university clusters of excellence ;

→ Develop bridges between the researching and teaching functions by setting ambitious and measurable targets ;

→ Urgently reform the financial management of mixed research units ;

→ Settle in the next budgets the issue of the carry-over and allocation of appropriations to the research units.

## 34 Preparation and monitoring of the execution of the Central Government's budget

In the reports it draws up every year on the results and budget management of the Central Government as well as in the assessment of movements of credits decided by decree, the Cour des comptes expresses recommendations relative to the preparation and monitoring of the execution of the Central Government's budget. The monitoring of seventeen of them shows a gradual but still too limited development of good practices.

Several recommendations intended to specify the framework for the execution of the budget of the Central Government, to reinforce the monitoring of the expenditures of the operators and to reclassify certain revenues of the Central Government were for the most part implemented. They contribute to clarifying the budgetary information and to improving the management of its execution.

Other recommendations were partially implemented. They referred notably to the insufficiencies of budget authority under the initial Budget Act compared to the foreseeable needs, the recognition and payment of expenditures due during the fiscal year, or the structuring of the standard used to limit the increase of Central Government's expenditures. At the same degree of

implementation are the recommendations related to the monitoring and assessment of tax expenditures and to budget management. The complementary period that makes it possible to extend beyond the end of the year the execution of expenditures that become payable has been reduced; the annual performance reports are prepared sooner after the end of the year and the budgetisation of expenditures in authorised commitments was extended. The progress noted must be improved.

Certain recommendations have not yet been successful, notably those that pertain to the recognition of all the legal obligations created during the fiscal year, to informing Parliament on the development of indebtedness over the short term or also to the matching of special accounts contributing to the implementation of public policy to the corresponding missions of the master budget.

The delay in implementing several of these main recommendations made by the Cour des comptes does not result, for the majority of cases, from a technical difficulty and they should be able to quickly come to fruition in order to improve the quality of budget information and to favour a better financial management of public policies.

## 35 The effects of the certification of the financial statements of the Central Government

Every year, since 2006 the Cour des comptes is entrusted with certifying the lawfulness, truthfulness and fairness of the financial statements of the Central Government with respect to the reporting framework set out in the Central Government's accounting standards on an accrual basis.

Expressing a certification opinion is an essential aspect of the reform decided by the constitutional legislator under the LOLF. It must guarantee the reliability of information provided to Parliament, the authorities and the citizens. The economic and financial crisis simply increased the need for a complete transparency of the accounts.

By deciding to certify the financial statements for the 2006, 2007 and 2008 fiscal years with a high number of reservations, the Cour des comptes wanted to underscore its desire to adopt a constructive hand-holding approach for the gradual implementation of the accounting reform while, at the same time, providing Parliament with detailed information on the limitations of the Central Government's financial statements.

### Fiscal year 2009 : a year of progress

In its certification opinion published on 25 May 2010, the Cour des comptes decided to remove three of the qualifications expressed on the financial statements for the prior fiscal year. Overall 10 reservations were removed over three years (1).

Despite these improvements, nine reservations, eight of which are substantial, have been renewed. All of the aggregates of the financial statements continue to be affected by uncertainties, differences of opinion with the preparer of the financial statements and limitations on the scope of the audits. Two reservations are of a structural nature. They result from the maladjustment of the financial and accounting information systems of the Central Government and the insufficient efficacy of its internal control mechanisms. Two qualifications concerning long-term investments refer to the accounting treatment of the social debt redemption fund and uncertainties regarding the valuation of Central Government operators under its assets.

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(1)Furthermore, new reservations were formulated during the same period.

# The effects of the certification of the financial statements of the Central Government

Three other reservations pertain to the assets of the ministry of defence, the valuation of the real estate holdings of the Central Government and the fixed assets and inventories of the civil ministries.

## Management of the services of the Central Government remaining for the most part rooted in the budget-based approach

Supplementing the monitoring of budget operations, i.e. the sole inflows and outflows for the fiscal year, with asset-related information remains marginal. Thus, the information derived from a better accounting awareness of the real estate holdings, the improvement from the inventory of contingent liabilities, the cost of holding and maintaining the equipment necessary for

conducting the activities of the Central Government is not used to support the decision-making process.

However, regardless of the remaining limits, accrual-basis accounting may provide the administrations with information as yet not in their possession, which may prove useful for the steering of their management. These data must now be used.

## 36 Legislative measures concerning Social Security and retirement

As in previous years, the Cour des comptes examined to what extent the provisions of the Law for the Financing of Social Security (loi de financement de la sécurité sociale or LFSS), as well as those, just prior to that, of the Law on the reform of retirement, reflected in the Court's previous audit and recommendations.

Several recommendations repeated by the Cour des comptes, which concern structural questions, were the object of provisions in the 2011 LFSS. This was in particular the case of the financing of deficits, since a debt takeover is planned by the Social Debt Redemption Fund (caisse d'amortissement de la dette sociale or CADES), for the monitoring of the national objective for sickness insurance expenditures (objectif national des dépenses d'assurance maladie or ONDAM), made more rigorous as recommended by the Cour des comptes.

The Cour des comptes notes however that these measures remain, in particular for the decrease of "social niches" (exemptions of contribution payments), below its recommendations and that they did not have a sufficient effect on the decrease of deficits, which constitutes for the Cour des comptes a genuine necessity. Several provisions of

the Law on the reform of retirement correspond also to recommendations, sometimes old, by the Cour des comptes. In two cases, the Law announces supplementary studies in order to go in the direction of the recommendations of the Cour des comptes, on the one hand for a greater harmonisation of the rules and limits between invalidity and disability, on the other hand for reform of demographic compensations in the retirement branch. The LFSS stipulates, in turn, the discontinuation of the sickness demographic compensation: this also corresponds to a recommendation of the Cour des comptes.

Several provisions further allow greater convergence between the rules for the private sector and those applicable to public servants: The decrease in the minimum time needed to be eligible for retirement in public service, the removal of the option - offered to parents of three or more children - to retire after 15 years in public service or also the downward revision of the insurance time bonus, provided to certain grades of civil servants.

## 37 Coface

In an inquiry carried out in 2008 at the request of the finance commission of the Senate, the Cour des comptes audited Coface which manages on behalf and with the guarantee of the Central Government, the export risk insurance translations of French companies that cannot be reinsured commercially.

### A strengthening of the demand for support of companies

The economic crisis largely explains this. In 2008, the Cour des comptes had found a trend toward a decrease in the applications by companies for Coface's public bidding process, principally with respect to credit insurance. The coverage taken out under credit insurance has in fact tripled from €7.5bn in 2008 to more than €20bn in 2009. The Cour des comptes recommends transferring this process, at least partially, to a banking operator whose management costs remain high.

### Improved management performance

The recommendations that the Cour des comptes had made for the improvement of the management of the public bidding process were followed overall, both with respect to

streamlining the organisation of Coface for examining the applications of companies and for a better identification of the workforce assigned to managing the government backing.

### Better risk assessment

The recommendations relative to the understanding of the risks incurred by the Central Government expressed in 2008 have taken on a new sensitivity. In fact, the risks taken in aeronautics, which represent 20% of commitments underwritten, are not properly provisioned. The Cour des comptes continues above all to regret that all the conclusions have not been drawn, by the central Government, from the calculation made to determine the capital needed to deal with risks related to credit insurance. It reiterates in consequence its recommendation aimed at defining the level of risks that the Central Government wishes to cover with equity from the public bidding account of Coface in order to deduct from it the annual withholding that it may operate on the cash in the account.

## 38 Reorganisation of the collection of apprenticeship tax in the fields of transport and logistics

Following the audit of the agencies that collect the apprenticeship tax (organismes collecteurs de la taxe d'apprentissage or OCTA) in the transport and logistics sector the Cour des comptes had found major malfunctions, which it reported, by summary proceedings of 23 July 2008, to the ministers of transport, employment, national education and budget, who oversee these associations. The Cour des comptes had underscored the opacity of the collection system and noted the establishment of self-controlled “de facto groups” carrying out activities that are sometimes very remote from any public service mission, without such deviations having generated any reaction on the part of the administrations concerned. Therefore the Cour des comptes had recommended an immediate and far-reaching reorganisation.

### The collection organisation has changed since 2008

The AFT, a vocational training association in the transport sector (association pour la formation professionnelle dans les transports) is now the only agency that collects the apprenticeship

tax, the other associations having lost their authority to do so in 2009. The organisation of this group has itself been simplified: the 27 real estate companies that were part of it have been merged into a single one and the various associations operating in the field of continuing education have been combined into a single organisation.

### An incomplete development

The setting of the remuneration of senior managers continues to escape the control of the oversight of AFT while there is room for improvement in the financial transparency of the group due to the lack to date of consolidated accounts certified by an auditor.

The distinction between collection activities and those pertaining to the area of competition (training) remains unclear. The situation of the OCTA would profit from collaborating with of equal representation organisations collecting funds from the continuing occupational education (OPCA), for which collection is the essential mission, except for any activity concerning the provision of occupational training.

# Réorganisation of the collection apprenticeship tax in the fields of transport and logistics

## The exercise of oversight remains marked by major weaknesses

After a mobilisation consecutive to the summary proceedings by the Cour des comptes, the responsible ministries did little to change their practices. In particular, they did not set up a “commitment and monitoring committee”, tasked with approving the distribution of tax resources allocated to AFT, while

they had made the commitment to do so following the summary proceedings of 2008, thus depriving themselves of a management tool for that operator.

The Cour des comptes underscores the need of reinforced vigilance of the public authorities so that the changes started in 2009 may be completed.

## 39 GIP Housing and social actions for marginally homeless and homeless persons

In a previous audit included with the annual public report of 1999, the Cour des comptes had prepared a critical report of the exercise of its re-housing missions by the housing and social actions badly housed and homeless persons public interest group “groupement d’intérêt public (GIP) habitat et interventions sociales pour les mal-logés et les sans abri”.

It had raised the question of the continuity of this entity.

Ultimately renewed in 2003, the GIP experienced strong growth which resulted in 2007 in a doubling of the Central Government’s subsidy. Its activity was refocused and its missions further restricted.

The Cour des comptes notes that the existence of this entity which seems justified for Ile-de-France to ensure emergency re-housing, and that the oversight authorities are satisfied with its actions. The risk to have it entrusted with missions that have no direct rela-

tion with its purpose remains however quite real. The Cour des comptes calls the attention to the consequences from the increase in the use of sliding scale leases until 2009. It recommends implementing a securitisation of GIP claw-backs and maintaining the means for controlling this entity. The internal management of the GIP must be further improved.

## 40 L'Ecole nationale de la voile et des sports nautiques

The examination of the actions on the recommendations that the Cour des comptes had made after its audit of the National school for boating and nautical sports (Ecole nationale de voile et des sports nautiques or ENVSN), for fiscal years 1995 to 2004, shows that, despite the progress made, certain projects are still unchanged. Moreover, the development of the context in which the activity of the School fits calls for a broader analysis of the future of this institution.

### New training and extinction of discontinued diplomas

The School was supposed to reposition its training on the preparation for new diplomas created by the ministry of sports and include the hosting of high-level athletes within a more sustained relationship with the French sailing federation (fédération française de voile or FFV).

The School signed in June 2009 an agreement with the FFV which recognises it as a “National multi-resource centre of excellence for the entire high-level sailing, and for light, inshore, disa-

bled sailing supports”. Based on this, the agreement presents a series of actions which the School is supposed to implement in relation with the Federation.

### Certain management deficiencies remain

The management of the institution was suffering from many deficiencies: no working scheme; no mission letter for the director of the school, no global tool for the contractualisation between the institution and its supervision authority. The situation has changed only partially: only a performance contract between the ministry and the School for the 2010-2012 period was signed in November 2010.

Admittedly, the School is today in a transition phase which makes it difficult to determine what a renewed activities profile could be. But, for that reason, the Cour des comptes insists on the need to elaborate a working scheme which should make it possible as from 2012 to define the school's future.

## Poor awareness of costs

The School's tuition policy (prices for training, internships, lodging and catering) was not based on cost awareness. The Cour des comptes incentivised the institution to implement cost accounting.

The situation has not changed at all since the School still has no cost accounting that would enable it to have a reliable framework for setting its rates. Therefore, this should be a priority project.

## Low level of attendance

The audit of the Cour des comptes led to underscoring the low attendance of the lodging facilities and restaurants available to the School at its site. For lack of precise cost accounting, it is difficult to assess the costs induced by this overall insufficient attendance.

A discussion and analysis could be opportune regarding the prospects of this activity and the way to cut costs.

## Housing units for those with absolute service requirements

The Cour des comptes had found that the conditions under which six housing units were allocated to people who required them for essential service reasons suffered from insufficient regulatory basis. This situation has not changed. The supervisory authority of the School has reiterated its commitment to prepare a circular to better frame the housing conditions in these public institutions.

The activity of the ENVSN is part of a framework structuring which has been reinforced by the agreement that now unites it with the French Sailing Federation and the recently signed performance contract with its supervisory authority. It must put to good use the time until the 2012 expiry to prepare a working scheme whose consistency will be the condition for its sustainability

## 41 Chorus and the Financial Reporting Systems of the Central Government

Chorus is the largest IT management project conducted by the Central Government to date. Its principal objectives are to improve the management of the Central Government by making it more efficient and to guarantee the reliability of the financial statements and budget of the Central Government. Launched in 2006, Chorus must be deployed over the entire territory, for all the management and accounting departments of all the ministries (1), in 2011. This roll-out concerns 35,000 users. In 2012, the accrual-basis accounting of the Central Government, in other words the recording and valuation of the assets, receivables, debts and commitments of the Central Government all together without exception, must be kept with this application.

### A major project with a difficult deployment

Chorus has experienced deployment difficulties. In early 2010, the expenditures of several ministries, starting with that of the ministry of defence, experienced delayed payments, of a maximum amount valued at €6bn in July,

which caused cash flow difficulties for the Central Government's suppliers. These late payments were not fully absorbed in early December 2010.

### Compromised improvements

The insufficient revision of procedures and processes that should have accompanied the roll-out of Chorus compromised the improvements of the public management expected from the project. The strategic choice made in 2006 consisted choosing an integrated management software package already on the market, used by other large organisations and public and private companies, which would require a complete overhaul of the management processes to be able to take full advantage of the capacities offered by the new tool. This overhaul was not completed for all the steps of the expenditure:

- The monitoring of commitments (i.e. of orders placed by Central Government departments) is not yet provided ;

- the organisation of the chain of expenditures is not yet efficient, notably

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(1) Chorus will ensure the payment of all the expenditures of the Central Government, with the two notable exceptions of Payroll and tax expenditures.

# Chorus and the Financial Reporting Systems of the Central Government

in terms of recording of a service rendered (correct recording of the acceptance of goods or services ordered) and monitoring of supporting documentation, but also user-tailored reports ;

-the development of the accrual-basis accounting experienced uncertainties, the design of this aspect of the project having been considerably delayed.

These insufficiencies have direct consequences on the quality of the financial statements of the Central Government.

the costs of the project. While the direct costs of the project are valued at €1bn over 10 years by the ministry of budget, this quantification is made on shaky bases and the projected scenarios on which it is built need to be updated; moreover, the charges in the order of €500m must be added to this quantification, notably concerning the adaptation to Chorus of the ministerial systems or the Chorus environment. The total cost of the project could reach €1.5bn over the 2006-2015 period.

## Strategic deficiencies in organisational choices

The initial decision to keep the accounting organisation unchanged while streamlining it was both feasible and necessary, the lack of decisions in terms of cost accounting, consolidated accounts or reliability of data relative to the real estate holdings are all shortfalls. Project governance remains in question; the main strategic orientations of the project suffer from a lack of inter-ministerial coordination.

Finally, the Cour des comptes notes a lack of transparency and control of

# Chorus and the Financial Reporting Systems of the Central Government

## Recommendations

➔ Clarify the governance of the project and further link it with those of the other structuring projects (Copernic, national payroll operator, logistics information systems) and favour the emergence of a consistent inter-ministerial strategy, based on policy support over time ;

➔ Make reporting to those authorising the expenditures a priority project in order to redefine the management and control tools ;

➔ Overhaul the general regulation of the public accounting, by identifying the priority sectors of the new functions (shared service centres, invoicing department, operational units, etc.) and the actions likely to challenge in the expenditures priority list and in the receipts and tax expenditures priority list, the legal responsibility respectively of those authorising the expenditures and the accountants ;

➔ Bring, from the initial stage, the number of legal accounts to some forty accounts ;

➔ Keep full accrual accounting auditable to ensure the monitoring of debts by the Central Government to its suppliers;

➔ Develop auxiliary accounting systems and build the reliability of the data “transitioned” to Chorus, with the goal to make maximum use of the possibilities offered by the integrated management software package and to optimise the return on investment ;

➔ Transform the development of a true cost-accounting system at the scale of the Central Government into a priority of the general revision of public policies.

## 42 Le Centre national de la fonction publique territoriale (CNFPT)

The National centre for the local civil service (Centre national de la fonction publique territoriale or CNFPT) is a national public institution tasked with missions related to employment and training of territorial agents. The Cour des comptes had pointed out in 2002 and 2007 numerous deficiencies in the management both of personnel and of property or vehicles.

Another audit for the fiscal years 2004 to 2009 showed the persistency of these deficiencies.

CNFPT tried to guarantee the quality of its management by putting into place instruments and procedures that were intended to be constraining. Still deficient however are the awareness of jobs and positions by the agents that would make it possible to adapt the internal organisations, a true purchasing policy beyond the simple formalisation of procedures, a control of transport and relocation costs behind frequent wastage, and a cost accounting system.

The far-reaching transformations in the training of territorial agents introduced by the Law of 19 February 2007

must lead the CNFPT to adapt to the configuration of the schools that this law has largely phased out, reinforce collaboration with the local authorities and develop cooperation with the departmental centres of management, universities and professional networks.

The annual budget of the CNFPT is approximately €350m, for the most part funded by a mandatory contribution based on the salary and wages of the territorial agents. This captive feature of revenues, which is growing sharply because of the increase in numbers of these public employees, has guaranteed to the CNFPT a certain affluence which did not encourage it to control the costs of its activities. An ambitious real estate investment plan for €150m over five years, including notably the acquisition in central Paris of a new headquarters at a cost close to €70m was adopted. CNFPT is not however able to justify such investments or their future maintenance costs with preliminary studies.

### Recommendations

- ➔ Renew the training offer ;
- ➔ Upgrade management tools ;
- ➔ Control expenditures ;
- ➔ Adapt the amount of contributions to the activities and the needs that result from them, by lowering their rate, fixed at 1% in 1987 to the ceiling stipulated by law and unchanged since.

## 43 Grand port maritime de Marseille: social dialogue breakdown and decline

France's most important port, the Grand port maritime de Marseille (GPMM) was the subject of particular attention from the Cour des comptes, which had underscored in its public thematic report of July 2006 the urgency of the reform of French ports.

### GPMM kept falling behind in international competition

It enjoys however comparatively numerous advantages in its two components, the docks of Marseille to the East, the port of Fos to the West: a good position on the maritime route between Asia and Europe; a reasonable cost of transit compared to the principal competitors; good accessibility, vast land reserves at Fos despite environmental constraints; an oil pipeline network with European destination.

Nevertheless, the port of Marseille lost its market shares in almost all the sectors, with only a certain success in cruises. It could not take advantage of the exceptional momentum of the transport of containers and must be satisfied with the 27th place in Europe in this field. It increased its dependency

on oil rent, while also giving up positions in this niche.

### Reliability compromised by incessant labour conflicts

In a social landscape dominated by a union, major crises, essentially around the future of vertical handling have undermined the life of the port in recent years: 2005, 2007, 2008, 2009 and, most recently, October 2010.

These often violent crises have diverted a portion of the traffic away from the port temporarily or permanently.

Admittedly, labour relations are experiencing today a somewhat differentiated development in both parts of the port: still blocked and marked by strong hostility towards reform on Marseille's wharfs and the oil docks, they are experiencing a nascent dialogue about the reform at Fos. The image projected by the port to its customers in terms of labour relations however remains negative and weighs on its commercial future.

# Grand port maritime de Marseille : social dialogue breakdown and decline

## Unfinished reforms

The reform of 1992 of the horizontal handling system, carried out by the dockers was not completed: the two central labour offices (bureaux centraux de la main d'oeuvre or BCMO) continue to be active at Marseille and at Fos, while they disappeared from the other ports; rather than recruiting dockers directly, handling firms preferred to use groups of employers, managed with the dominant union. The productivity of the dockers has declined since 2007 under the effect of a lack of work reorganisation, combined with an increase in workforce, while traffic was declining.

As for the vertical handling personnel, which remains employed by GPMM as long as the 2008 reform is not in effect, they enjoy a work schedule that is quite different from that of competing ports: teams of two gantry operators per lifting machine instead of teams of three for two machines, or even four for three; less than half rate of use of gantries. While one gantry operator drives the machine, the other remains nearby doing related tasks or resting. In the end, the time of actual driving of the gantry is, per day, 3 hours 30 minutes at Fos and 3 hours at Marseille, the weekly length being respectively 14 hours and 12 hours. Furthermore, the Cour des comptes notes the persistence

of unorthodox “payments” made by handling firms which have generally disappeared elsewhere in France.

## Poorly controlled management of human resources

Personnel expenditures increasingly weigh on the results. Despite a slight drop in 2009, the objectives of the business plan were not respected for the workforce or for the greatly increased total payroll. The “jungle” of bonuses was again extended following the labour crisis of 2005, the compensatory time-off was not properly managed, the granting of overtime was not subject to the degree of rigorousness one might hope for and the social action expenditures were out of proportion with those of comparable French ports. As for absenteeism, too sizeable, it grew further. Finally, the number of workdays lost due to workplace and commuting accidents increased.

## Recommendations

➔ Establish reliability indicators, organise debates about them, by associating various actors, both internal and external ;

➔ Complete, on the concerned terminals, the transfers, planned by the port reform, of equipment and those who use it ;

➔ Encourage as part of this reform, the effort of the terminal operators to lead the adaptation of handling to international standards ;

➔ Achieve better control over the management of human resources notably by implementing the recommendations of the Cour des comptes accompanying the analyses presented above ;

➔ Engage the Port in a true performance-based approach, by developing dynamic regularly updated plans.

The Cour des comptes insists, before the management of GPMM, but also before the ministry in charge and local representatives of the Central Government that they sanction or have sanctioned the impulsive behaviour combined with violence, among other things, by routinely filing complaints.

Generally, the authority of the Central Government must be exercised fully and persistently for the reforms desired by the legislator to be effectively implemented at GPPM and elsewhere.

## 44 Accounting agencies of public schools (lycées and colleges)

The 2008 annual public report had noted deficiencies in the accounting management of the 2,600 public lycées and 5,200 public colleges. The Cour des comptes had noted the poor keeping of accounts due to deficiencies in the accounting organisation. It had noted that the accounting agencies had very unequal scopes: in autumn 2006, 403 agencies only had one single institution and approximately 2,000 two to four institutions. The Cour des comptes had also noted that the accounting regulation was obsolete.

### An overall revision of the organisation of the accounting agencies

Each school was asked to define a new accounting charter enabling the gradual transition of the average workforce of the depending institutions by 2012 from three to six institutions. This reorganisation must be accompanied by an improvement in the training of accounting officials and personnel, as well as by a reinforcement of teams in the largest agencies.

These orientations respond largely to the recommendations of the Cour des comptes. The Cour des comptes however had expressed the desire for an enhanced combination of accounting

agencies. In addition, the separation of the duties of accounting and authorising officer within the school institutions has not yet been started by the ministry.

### Adopting updated and simplified accounting guidelines

A reform of the budget and accounting framework of the collèges and lycées has been started. This reform, which is expected to be fully operational in 2013, stipulates a simplification and a better readability of the budget, in order to better account for the growing globalisation of the appropriations. Furthermore, the budget will be now prepared by taking into account the works scheme and the target-type contract signed with the school authority. These orientations respond largely to the recommendations of the Cour des comptes. The financial courts will make sure however that the implementation of this new budgetary and accounting framework will make possible a development of school institutions towards greater autonomy and management by results in accordance with the orientations of the Constitutional Bylaw on Budget Acts (LOLF).

## 45 L'Établissement public d'insertion de la défense (EPIDe)

### An improvised creation

In summary proceedings addressed in February 2008 to the minister of the economy, finances and employment and to the minister of defense, the Cour des comptes had noted that this institution, intended for the social and occupational integration of underprivileged youths had been created in 2005 through improvisation without awareness of the rules of proper management and had only yielded poor results at high costs. It had recommended re-examining the entire mechanism.

After another audit, the Cour des comptes found that, despite some reorganisation, the Central Government had not yet positioned itself to meet the objective of reintegrating marginalized youths that it had set itself. It was not until 2009 that the EPIDe acquired a targets and means contract (contrat d'objectifs et de moyens or COM) which finally started clarifying its positioning and better establishing its operations.

### Integration costs remaining high

The institution only takes in 2,000 “volunteers for reintegration” a far cry from the initial ambition of 20,000, in

20 residential schools, too often located in rural areas, far from employment possibilities. A complex and very imbalanced real estate arrangement imposes 25-year commitments on the institutions, which makes redeployment difficult.

The cost of housing a youth seems high (€40,000 per year) without the results in terms of sustainable reintegration into the workforce being significantly better than through other mechanisms that are considerably less expensive. The assessment approach stipulated by the COM was two years late and does not make it possible to verify that EPIDe actually takes in youths that are experiencing the greatest difficulties and contributes efficiently to their reintegration.

The Cour des comptes recommends freezing the provisions of the COM – in particular of any budgetary and financial aspects – for as long as the ministries in charge do not have the results of this assessment to be able to decide with the full knowledge of the facts whether to maintain or dissolve EPIDe.

## 46 The participation of France in the European permanent military corps

France participates in eight permanent European military corps of a varied nature and size: the oldest and best structured one is the Franco-German Brigade. One could also cite Eurocorps, the maritime forces, and, most recently, the air transport forces and a gendarmerie force.

### Persistent blockages

Symbols of the European integration and prefiguration of the future, these units must deal with multiple malfunctions underscored by the Cour des comptes in 2003.

Litigation, notably in tax matters, has blocked for years (17 years in the case of Eurocorps) the implementation of international agreements necessary for the proper operation of some of these corps.

The operational management of these units is hampered on a daily basis by the unanimity rule that governs them, with respect to international entities, where other, more flexible formulas could have been put in place. The recent period, marked by the increase in the number of participants and the creation of new corps, resulted in a deterioration of this situation except for the air sector which recorded some progress.

The Cour des comptes had also expressed concern about the obvious under-utilisation of these units in the international operations, while the ambition that had prompted their creation should have led to a visibility and therefore important mobilisation. The situation has not changed since the beginning and nothing would indicate an improvement in the future.

### The need of a more global discussion and analysis

Each of these units was created in response to a particular situation and to purely national concerns: to remedy the disparate nature and lack of links between these various forces with one another, noted by the Cour des comptes from their origin, an adaptation of these forces to the recent developments in the Common Security and Defence Policy (PESD) could be envisaged.

These findings, for which France could not alone be held responsible – far from it – should be at the root of an overall structural discussion and analysis with a view to an overhaul and reorganisation, or even discontinuation.