Cour des comptes

FINANCES AND PUBLIC ACCOUNTS

THE SITUATION AND OUTLOOK OF PUBLIC FINANCES

AUDIT

Summary

Juin 2017

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DISCLAIMER

This summary is intended to help understanding and using the report prepared by the *Cour des comptes*.

Only the report is legally binding on the *Cour des comptes*.

The responses of the Ministry for the Economy and Finance and the Ministry of Public Action and Accounts appear after the report.

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Introduction

In a letter dated 22 May 2017, France's prime minister asked the *Cour des comptes* to carry out an audit with a view to assessing the current situation of the country's public accounts and to shedding light on the related outlook and risks regarding both the year 2017 and the period from 2018 to 2020.

The audit review was handed over on 29 June 2017. It is the focus of the current report on the situation and outlook of France's public finances, which is drawn up each year pursuant to Article 58-3 of France's organic law on finance acts (LOLF).

The *Cour des comptes* firstly examined the public-finance situation of 2016 and how this changed in relation to previous years, putting it in the context of Europe.

For 2017 and subsequent years, the *Cour des comptes* examined risks affecting changes in revenue and spending planned as part of France's Stability Programme. The investigation was based on one same set of policies: only measures decided upon and implemented on 10 May 2017 were taken into account. For 2017 in particular, the *Cour des comptes* sought to determine whether or not the public-balance target stated in the Stability Programme could be achieved. Concerning 2018, it looked into risks that could affect the goal of further reducing the deficit, by 0.5% of GDP. In addition, the *Cour des comptes* attempted to identify the main factors that will impact the course that France's public finances are set to follow up to 2020.

The outlook that emerged from the audit has prompted the *Cour des comptes* to present the means through which public spending can lastingly change course, both in methods and goals, and to set forth recommendations for improving governance of public finances.

Lastly, the *Cour des comptes* has put forward a non-prescriptive, non-exhaustive list of drivers to make public policy more efficient. To this end, it has made use of work accomplished in recent years.

The data on which the *Cour des comptes* based its appraisal is that which was available prior to 26 June 2017.

1 A slow deficit-reduction rate from 2012 to 2016, placing France behind its European partners

A persistently high deficit and an ever-growing public debt in 2016

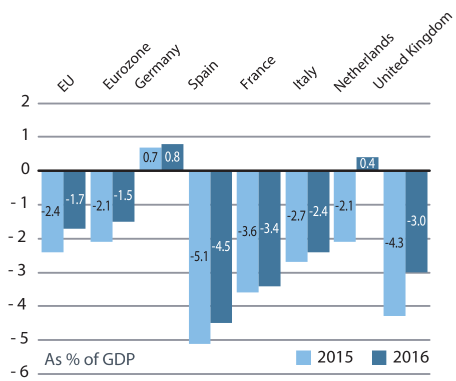
In 2016, the public deficit stood at 3.4% of GDP, down 0.2% on 2015, following a 0.4% drop in 2015. Despite this fall, the general governement deficit remained high.

In 2016, there was no deficit reduction at the level of the state and central public agencies. This as despite savings automatically made in charges against revenue paid to the EU, debt-servicing costs, and expenditure carried over to 2017. Only in social security and local public governement were balances better, both improving by 0.1% of GDP. Notably, local public governement reduced their spending in 2016.

Public debt rose by around €50bn in 2016. It now amounts to 96.3% of GDP, up 0.7 points on 2015. This higher debt-to-GDP ratio comes from increased state debt, which, like in 2015, was nevertheless limited by issue premiums received by *Agence France Trésor* (France's national cash-flow and public-debt agency). These reached €20.8bn in 2016 and €22.7bn in 2015, nearly 1% of GDP.

The balance and debt of public governement improved to a lesser extent in France than it did in other European countries. With an improvement of 0.2% of GDP in 2016, France did not reduce its deficit as much as EU countries did collectively (- 0.7%), nor as much as the eurozone did (-0.6%). France now has the second-highest deficit among EU member states, behind only Spain (4.5% of GDP). Moreover, France and Spain are the only two countries whose deficit still falls short of 3% of GDP, the ceiling set by the Maastricht Treaty.

Public balances in 2015 and 2016 in Europe (as % of GDP)



Source: Cour des comptes, *based on Eurostat data on national accounts*

A slow deficit-reduction rate from 2012 to 2016, placing France behind its European partners

Although public debt grew by 0.7% of GDP in 2016 in France, it actually fell in most European countries (by 1.1% in the eurozone and 1.4% in the EU as a whole).

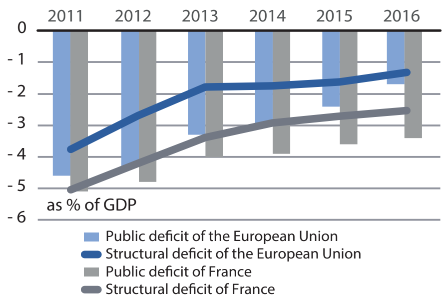
Between 2011 and 2016, France did not perform as well as other European countries

France's public deficit fell at an average yearly rate of 0.3% of GDP from 2011 to 2016, slower than the EU average, even though the country began in a worse situation.

Sluggish economic growth partly explains why this adjustment was so slow. According to the European Commission's appraisal in May 2017, France's cyclical budget balance has worsened at an average annual rate of 0.1% of GDP over the past five years, while the same indicator for the EU has remained stable.

This slow speed can also be explained by an improved structural balance[1], up 0.4% of GDP per year on average, weaker than that of France's eurozone partners, despite the French situation having been worse in 2011. Estimated by the European Commission to be at 2.5% of GDP in 2016, France's structural deficit is twice as high as that of its EU partners (1.1% of GDP).

Actual and structural public deficits in France and the EU from 2011 to 2016 (as % of GDP)



Source: Eurostat and AMECO (Commission's spring forecasts)

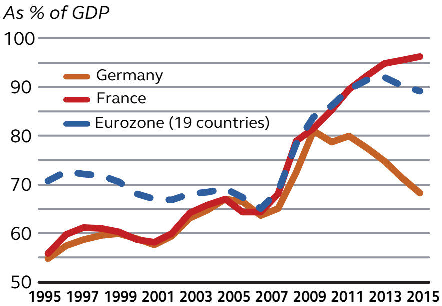
By persistently lagging behind its partners in balancing its public finances, France is on a par with Portugal as the European country that has, since 2002, spent the most number of years with an excessive deficit.

[1] The structural balance is the component of the actual balance that does not result from any impact of exceptional or cyclical situations.

A slow deficit-reduction rate from 2012 to 2016, placing France behind its European partners

As a result of high deficits posted over this period, France's public debt has not stopped growing: in 2016 it was 32% higher than in 2007 and 11% greater than in 2011. Since 2010, the country's public debt has pursued a different path to that of Germany: this disparity has now reached almost 30% of GDP. Regarding the eurozone, the discrepancy is more recent (2014) yet likewise growing and is now close to 7% of GDP.

Public debt in France, Germany, and the eurozone (as % of GDP)



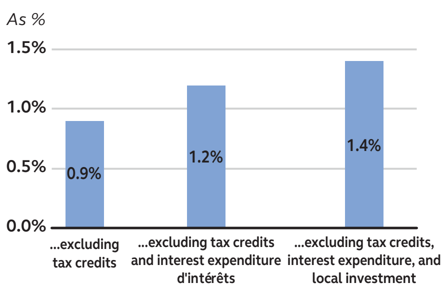
Source: Cour des comptes, *based on Eurostat data*

Over the 2012-16 period taken as a whole, France's structural efforts almost exclusively concerned revenue. However, two distinct periods can be singled out. Until 2013, attempts to reduce the deficit were essentially made by raising tax revenue. From 2014 onwards, and especially in 2016, measures curtailing tax revenue prevailed while efforts in public spending drove down the structural deficit.

In recent years, public spending in volume terms – excluding tax credits – grew at a rate of 0.9%, down markedly from the 2000s when this rate stood at 2.3%.

Spending was largely curbed by factors beyond public measures: from 2012 to 2016, lower rates prompted a €11.6bn (22%) reduction in interest expenditure, despite a ballooning debt. Reduced investment from local authorities also reined in public spending by 0.2%. This drop was sharpened by the state's decision to cut back on local grants, yet weaker investment from local authorities mainly reflected the municipal electoral cycle. Excluding interest expenditure and local investment, spending grew by 1.4% in volume terms.

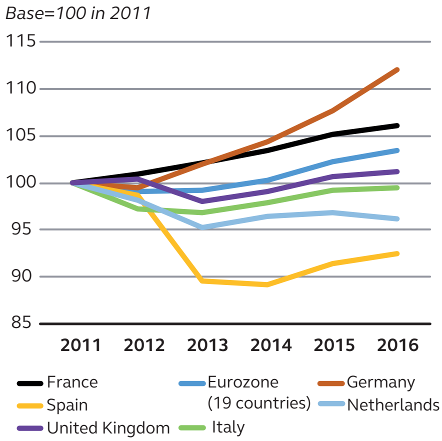
Average change in public expenditures in volume terms between 2012 and 2016



Source: Cour des comptes, *based on data from INSEE (France's national institute of statistics and economic studies)*

A slow deficit-reduction rate from 2012 to 2016, placing France behind its European partners

Changes in public spending in volume terms (base=100 in 2011)



Source: Cour des comptes, *based on Eurostat data*

Despite rising at a more tempered rate in recent years, public spending in France grew more strikingly than in neighbouring countries over the 2011-16 period. Only Germany hiked up its spending more than France did, although this evolution was fostered by the country's stronger economic growth and the budget surpluses that it has run since 2012. On the other hand, Italy, Spain, the Netherlands, and the United Kingdom increased spending at far lower rate than France did.

2 Without tough corrective measure, the deficit will remain above 3% of GDP in 2017

According to the Stability Programme that France presented to the European Commission in April 2017, the country's public deficit should fall more sharply than in previous years: by 0.6% of GDP in 2017, to reach 2.8% of GDP. The *Cour des comptes* sought to determine whether or not this target could be reached.

Risk of reaching a public deficit that falls short of the target by 0.4% of GDP

Given the latest available data, the Stability Programme's macroeconomic assumptions (notably the forecasted economic growth rate, public-sector wage bill, and rate of inflation) do not need to be called into question. However, the expected level of revenue seems exaggerated and spending has clearly been underestimated.

The estimated natural change in tax revenue is a reasonable premise, based on current legislation. Nonetheless, regarding other sources of revenue, forecasts seem overstated: revenue expected to made from the effect of new measures, from litigation, and via the state department for processing corrective tax declarations for offshore assets (STDR) should be revised downwards by €1.0bn in relation to the Stability Programme. Forecasted non-tax revenue also appears overestimated by a little more than €1.0bn. The overall estimate for public, tax, and non-tax revenue is therefore overvalued by around €2bn.

Effect of new measures, corrective tax declarations for offshore assets, and litigation (in billions of euros)

	Stability Programme 2017	Assessment by the Cour des comptes
New measures	0.5	0.5
Corrective tax declarations for offshore assets	-0.2	-1.1
Litigation	-0.1	-0.1
Total	**0.2**	**-0.7**

Source: Cour des comptes, *based on data from France's Stability Programme*

Public spending is certainly understated, especially at state level. General state-budget spending planned as part of France's initial finance act (LFI) for 2017 rose by €8.0bn in relation to implementation in 2016 and by €6.6bn versus the initial finance act for 2016. Despite this, there is still a risk that

Without tough corrective measure, the deficit will remain above 3% of GDP in 2017

overspending will reach €5.6bn (within a range of €4.6 to €6.6bn). With regard to the Stability Programme, which lowered the state-spending benchmark by €1.7bn, overspending could reach €7.3bn as an average estimate within a range from €6.3bn to €8.3bn.

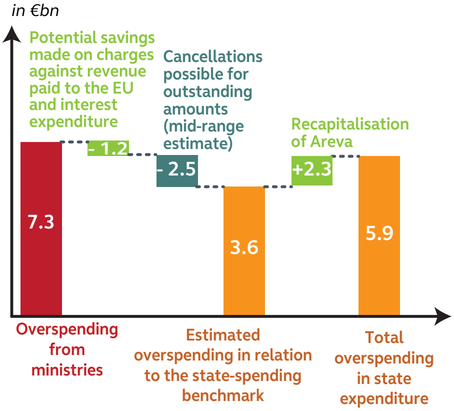
These risks chiefly concern four general-budget categories: *Agriculture, food, forestry, and rural affairs* (curtailed EU paybacks, compensation for social-security exemptions, health crises, etc.), *Work and employment* (training courses, state-subsidised jobs, etc.), *Defence* (domestic and overseas operations), and *Solidarity, social insertion, and equal opportunities* (adult-disability benefits, employment premiums, etc.).

On the other hand, savings amounting to €1.2bn in total could be made with respect to the Stability Programme, in taxes transformed to the EU and in interest expenditure. Furthermore, like every year, credit redistribution without interest being carried over to following years could offset overspending to a certain extent, the assumption being that they would total €2.5bn, as in 2016.

Still, the planned recapitalisation of Areva plus compensation paid to minority shareholders will total €2.3bn (0.1% of GDP), weighing on the global governement balance by the same amount.

All told, there is net risk of state-budget spending exceeding the Stability Programme by €5.9bn.

Estimated state-budget overspending in relation to the Stability Programme of April 2017 (in billions of euros)



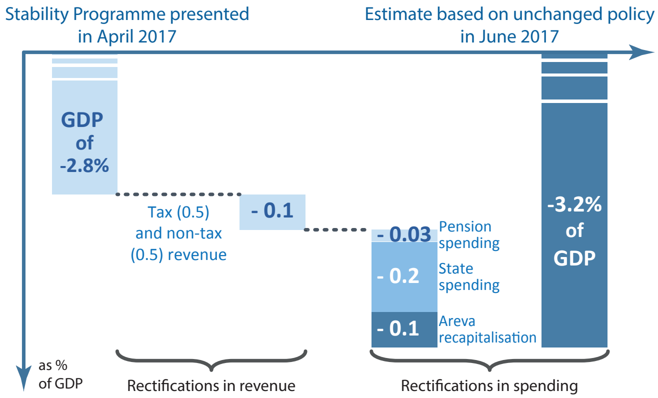
Source: *Cour des comptes*

In other sectors of general governement, the risks of overspending seem lower. For social-security agencies, the national target in health-insurance spending (ONDAM) should be respected, yet spending in pensions is undervalued by about €0.5bn. Forecasted spending on local authorities appears tenable, although is shrouded in uncertainty at this stage of the year.

Based on information that it has gathered, the *Cour des comptes* believes that France's public deficit could be greater than the Stability Programme's forecast by around 0.4% of GDP. It therefore estimates that the deficit will stand at about 3.2% of GDP.

Without tough corrective measure, the deficit will remain above 3% of GDP in 2017

Estimated public deficit in 2017 (as % of GDP)



Source: Cour des comptes

The *Cour des comptes* has observed that the risk of the deficit worsening in 2017 is similar the risk revealed by the 2012 public-finance audit. Nevertheless, the causes are considerably different. In 2012, the discrepancy was due to the country's estimated rate of economic growth having been revised downwards and its revenue from certain taxes having been overvalued. In 2017, the disparity comes almost exclusively from state spending being underestimated, despite public authorities having the power to actively and immediately change the current trend in spending.

Tough corrective measures should be taken quickly

Rigorous measures need to be taken right from the second half of 2017 to curb the risk of France's deficit running out of control, a peril brought to light by the *Cour des comptes*. To this end, certain credit allowances should be cancelled so as to finance programmes that are clearly underfunded.

In addition to keeping the country firmly on the course set by the its initial finance act and Stability Programme, a deficit brought down to under 3% of GDP would take France out of the excessive deficit procedure in 2018. However, to achieve this, additional measures are absolutely vital. At this stage of the year, such a change of course can only be accomplished by deferring or cancelling plans that push up public spending but have not yet been implemented and by applying measures that produce savings throughout the country's general governement.

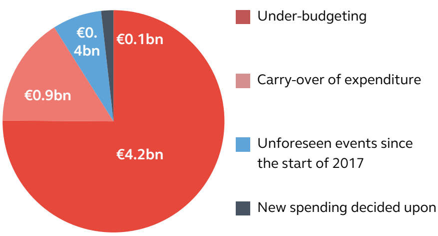
Bias skewed the sincerity behind initial finance act and stability Programme

The analysis from the *Cour des comptes* revealed that bias considerably skewed the sincerity behind France's initial finance act and its Stability Programme presented in April 2017.

Without tough corrective measure, the deficit will remain above 3% of GDP in 2017

Concerning spending forecasted by the initial finance act, the risk of overspending from ministries, estimated at €5.6bn, is chiefly due to inadequate budgeting (€4.2bn). By way of comparison, unforeseen events since the start of 2017 make up only €0.4bn of estimated overspending.

Categorical breakdown of spending risks at variance with France's 2017 initial finance act (in billions of euros)



Source: Cour des comptes

By tightening the state-spending benchmark by €1.7bn while failing to put forward new measures to produce savings, the Stability Programme presented in April 2017 effectively increased the risks of overspending. Investigations carried out by the *Cour des comptes* upon the prime minister's request revealed that what it observed was largely known to the Economy ministry, and therefore to the government, from autumn 2016, and known to them in even more detail last April.

It is therefore clear that the financial texts submitted for approval from the national parliament (draft finance act for 2017) and for inspection by EU authorities (Stability Programme) sorely lacked sincerity.

Improvement is needed in guaranteeing that sincerity underlies draft finance acts addressed to the national parliament and in Stability Programmes submitted to the European Commission and Council. The organic law of 17 December 2012 helped ensure sincerity in macroeconomic forecasting for financial laws and the Stability Programme by placing such estimates under the control of France's High Council of Public Finance (HCPF). Conversely, no similar arrangement currently guarantees the sincerity of forecasts in public finance prior to their approval by the country's national parliament or examination by the European Commission.

When future financial laws are drawn up, a clean break should be made from repeated under-budgeting, which compromises sincerity behind financial laws, prompts a carry-over of expenditure and widely freezes credit, which in turn clouds managers' foresight and reduces the sense of responsibility they should have.

3 Unprecedented savings required to abide by the Stability Programme in 2018

Regarding 2018, the *Cour des comptes* looked into the effect of decisions already made and the risks that could determine whether or not the Stability Programme's aim of reducing the deficit by 0.5% of GDP can be achieved. The *Cour des comptes* has identified several factors that will impact how financial laws are drawn up between now and 2020. These include macroeconomic changes, natural trends in certain spending, notably social expenditure, and a gradual increase in major infrastructure developments.

In 2018, stabilised public-spending in volume terms is required to cut the deficit by 0.5% of GDP

The Stability Programme forecasts a deficit of 2.3% of GDP in 2018, a 0.5% improvement on 2017. With regard to tax revenue, this forecast takes into account measures already decided upon (notably at end-2016), set to reduce tax revenue by €6.1bn overall in relation to its natural growth.

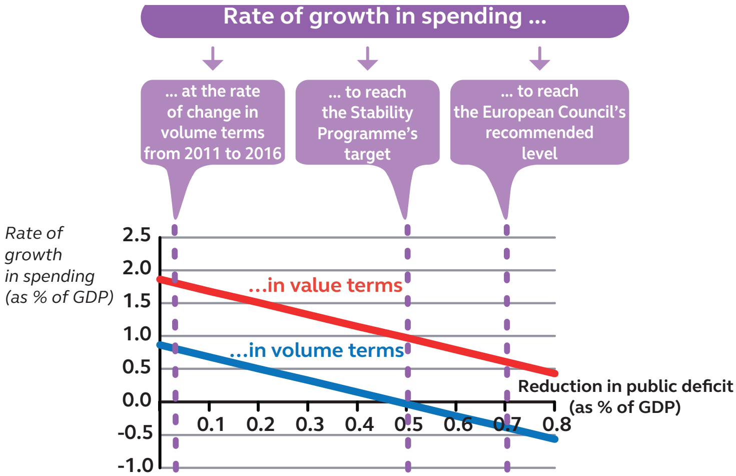
The deficit-reduction course drawn up for 2018 is biased both in terms of actual deficit (2.3% of GDP) and in terms of reducing by 0.5% of GDP the deficit expected in 2017. A rather overstated expansion in public revenue underpins the Stability Programme (tax and non-tax revenue generated by corrective declarations of offshore assets). More importantly, the programme underestimates the effort in public spending required to bring down the deficit by 0.5% of GDP, wrongly stating that it will match the average effort made in recent years.

Based on the Stability Programme's macroeconomic scenario and on a more realistic estimate of revenue, public expenditures would have to stabilise for the deficit to be curtailed by 0.5% of GDP. Yet They actually rose by 0.9% on average between 2011 and 2016.

If the 2011-16 level of effort made in spending continues unchanged, the deficit in 2018 would not be pushed down but simply remain at the same point reached in 2017.

Unprecedented savings required to abide by the Stability Programme in 2018

Growth rate in spending (as a %) required to reach a given target in public-deficit reduction (as % of GDP)



Source: Cour des comptes

The budgetary-equation challenge for 2018 will be further compounded by several factors set to drive up spending: a rise expected in taxes transfered to the EU; expanded undertakings from the state in terms of the public-sector wage bill (recruitment, a state scheme for better recognising public-sector career advancement and related pay, etc.) and other state spending (counter-terrorism, investment in infrastructure and transport, support for renewable energy, etc.); the natural growth in health-insurance spending and pensions; and a new climb in local-investment spending related to the municipal electoral cycle. Moreover, interest expenditure is likely to contribute to the public-spending slowdown less extensively than before.

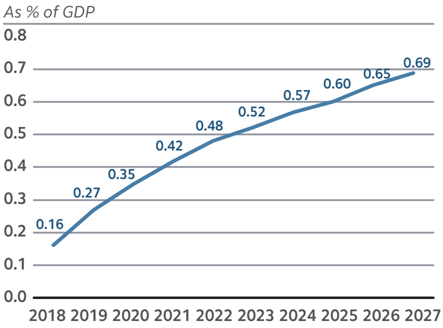
Risk factors already pinpointed on the path to 2020

The Stability Programme estimates that the public deficit will continue to fall between now and 2020, dropping from 2.3% of GDP in 2018 to 1.6% in 2019, then 1.3% in 2020. This course seems highly ambitious given the risks already pointed out.

Firstly, the Stability Programme's assumption that economic growth will speed up is based on an output gap of -3% of GDP in 2016 in its medium-term forecasts, well above that estimated by the European Commission (-1.3%).

Furthermore, the deficit-reduction course set for after 2017, measured as a percentage of GDP, is not at all certain. The continually ballooning debt could prompt a hike in rates. This would result in higher interest expenditure. For example, a rise in all interest rates by 100 basis points from 2018 would push up interest expenditure by around 0.2% of GDP as of that year and by over 0.3% in 2020.

How a rate rise of 100 basis points would impact public interest expenditure (as % of GDP)



Source: Cour des comptes*, based on France's national accounts and Stability Programme*

In addition, many risks weigh upon revenue and public spending.

In certain categories, spending is likely to remain robust, notably in defence and major transport-infrastructure projects. Revenue paid to the EU should increase, as is generally the case in the final years of multiannual financial frameworks. Given the difficult financial situation in which some state-owned companies find themselves, the amount of dividends received by the state should remain low in coming years and new state-funding requirements could emerge in the foreseeable future. Lastly, new cases of tax-related litigation are likely to prompt considerable state-spending.

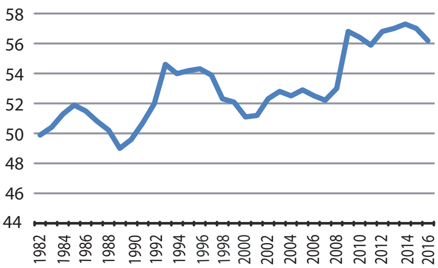
4 Long-term methods for lasting control over public spending

In France, the level of public spending is especially high in relation to that of other European countries. To date, efforts to bring spending under control have been weak. New measures are required, following the example of those successfully taken by many other countries. These should overhaul the way in which public finance is governed, bolster the coherence and reach of different financial texts, and set an overall goal for public spending that fully incorporates all agencies concerned.

High public spending, inadequate results

Public spending totalled €1,257bn in 2016, exceeding the amount spent in 2006 by around 30%. This change represents an average annual growth rate of 2.5% in value terms and 1.4% in volume terms.

Change in public spending as a share of France's GDP (as % of GDP)



Source: INSEE (France's national institute for statistics and economic studies)

Since 1982, public spending expressed in terms of GDP has grown by more than 7%. It rose from 49.9% of GDP in 1982 to 57.3% in 2014, before falling to 57% in 2015, and then down to 56.2% in 2016. Only brief spells of strong GDP growth have tempered this rise in spending.

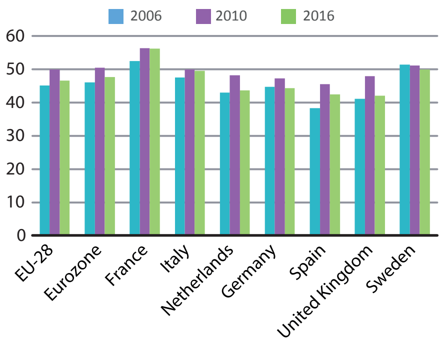
Comparisons with other European countries should be made cautiously, yet they highlight two points in which France stand outs:

- A level of public spending higher than that of virtually all its European partners: 56.2% of GDP in 2016, versus 46.6% in the EU as a whole and 47.7% in the eurozone. France's level of spending is 12% above that of Germany and 14% greater than that of the United Kingdom.

- A rate of growth in public spending that has not changed course: most EU member states and eurozone countries have markedly reduced public spending as a share of their GDP since the financial crisis, whereas France and Italy have failed to follow this trend.

Long-term methods for lasting control over public spending

Public spending in France and Europe (as % of GDP)



Source: Cour des comptes *calculations, Eurostat data. 2014 data for EU-28 and eurozone.*

Moreover, many studies and assessments conducted by the *Cour des comptes*, by research institutes, and by international organisations show that France's high level of public spending has not necessarily given rise to results worthy of it. This is the case in housing, employment, and education, for example.

Long-term effort required in public spending

Over the past ten years, measures have been taken to curb public spending and improve its efficiency. These have included a comprehensive review of public policy, a process for modernising public action, and inspections of expenditure. Nevertheless, the absence of any long-term drive in this field, including sufficiently stable methods that are regularly assessed, has led to unsatisfactory results.

Several principles to guide transformational, modernising policies are required to ensure efficiency in public spending. Measures should: enjoy lasting political support at the highest level of the state, including the main ministries; apply to a wide scope, seeking to make both efficiency savings (doing the same but with fewer resources) and structural savings (revising the reach and aims of public policy); and be incorporated into the budgeting process and determine multiannual objectives in changes in spending as part of public-finance planning acts.

Governance of public finance should be more coherent and efficient

Nearly five years have passed since the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union entered into force. Yet the *Cour des comptes* considers that there is room for improvement in how France governs public finance:

- The scope of financial texts should be widened and their coherence strengthened. France's public-finance planning acts (LPFP) determine the objective for medium-term structural balance and set a course for achieving it. However, in practice their scope is limited and their targets quickly abandoned. The Stability Programmes that present France's undertakings to the EU (and which, for that reason, should be subject to parliamentary debate), can also contravene them. The reach of yearly finance acts could be extended to a new act on inancing local authorities and to a new act on financing compulsory social protection (broadening the scope of acts on financing social security to the compulsory complementary-pension schemes and to the unemployment-benefits scheme).

- The structural-balance goal should be complemented with a spending target that concerns all expenditures among general governement in value terms. Such an objective would be determined by the public-finance planning act, then stated in the introductory articles of financial acts (finance acts, the social-security financing act, and, if need be, the act on financing local authorities). Progress made in achieving this objective should then be assessed in the introductory articles of the budget-review acts.

To involve all public-spending stakeholders, there should be on-going dialogue between the state and directors of public agencies (local authorities, social-protection authorities administrations, etc.) so as to share all aspects of the diagnosis on the situation of France's public finance and the path to be taken, and to discuss how each party will actively ensure that this course is followed.

5 Drivers to make public spending more efficient

Through its various investigations, the *Cour des comptes* has identified ways in which public policies could be made less costly and more efficient. When applied to all public agencies, some of these drivers would make efficiency savings by changing the way in which a given service is provided or by modifying the way in which a certain policy is implemented, without altering the nature or scope of that service or policy. Other drivers seeking structural savings would revise or reorientate certain inefficient policies.

General measures affecting all public agencies

Several drivers could **curb the public-agency wage bill** (€284bn in 2016). By freezing the index-point increase in public-sector pay, the wage bill could be reined in. Yet keeping it at the same rate could create an imbalance in relation to the private sector and generate additional costs due to the guarantee of individual purchasing power and minimum wage. Certain adjustments could nonetheless limit the cost of the index-point increase: it could be replaced by a fixed points-awarding system; it could be applied only to index-related pay and not to bonuses; the index-point scale could be dissociated from the three major civil-service sectors and adapted to the particular contexts of each one.

Other drivers could also be used to control the public-sector wage bill. Hundreds of types of compensation that no longer appear justifiable could be revised; career advancement could be restructured, compensated in negotiations by extra pay granted as part of the state scheme for better recognising public-sector career advancement and related pay; the reduction in the number of civil servants could be pursued further; and actual working hours in the public sector, currently lower than in the private sector, could be increased.

Drivers for curbing the public-sector wage bill

in €bn	Estimated savings
Controlling wage change from seniority and higher-level skills	
Index-point increase freeze	2.0
Increment freeze	3.0
Drivers in terms of personnel	
Non-replacement of: 1 in 2 public-sector workers (state civil servants)	0.6
Non-replacement of: 1 in 3 public-sector workers (public hospital-workers; regional civil servants)	1.8
Drivers in terms of working hours	
Increasing working hours by 1%	0.9
Fighting absenteeism (through unpaid sick leave)	0.4
Ending unjustified advantages related to salary	
Ending family-related allowances	1.5
Ending residency-related compensation	0.9
Ending overseas-territory extra pay and compensation	2.2
Ending overpaid part-time work	0.8

Source: Cour des comptes

Drivers to make public spending more efficient

Another driver to improve public-spending efficiency would involve **modernising how public agencies are managed**. Administration could be simplified to offset the burden of regulatory standards for both businesses and local authorities. Digital administration could also be developed more, regional public-administration networks could continue to grow closer together, state property could be managed more dynamically, and purchasing procedures could be further streamlined.

Greater efficiency can also be achieved in **tax subsidies**. The latter has been repeatedly criticised by the *Cour des comptes* for its lack of targeting and assessment despite its total costs reaching around €86bn in 2016 (€73bn excluding the tax credit for competitiveness and employment). Assessment of the scheme is especially urgent insofar that certain tax subsidies have had the opposite effect of that intended and barely help achieve the objectives set.

Cost and number of tax subsidies in €bn (2012-17)

2012	2013	2014	2015	2016	2017
72.2	72.1	78.5	85.1	85.8	89.9
491	464	460	453	449	451

Source: Initial finance act

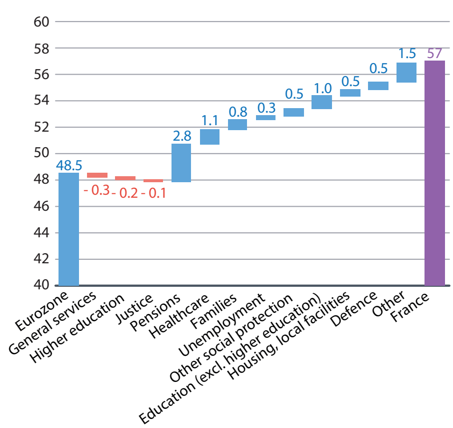
Furthermore, while public investment has reached €99bn, the *Cour des comptes* has pointed out, in various investigations, that prior assessment of their economic relevance was inadequate. More relevant investment decisions could be made by strengthening the role of France's general commission for investment (CGI), by systematically publishing the commission's recommendations, and through increased attention paid by the government to the content of these recommendations.

Lastly, another key driver for improved efficiency would be **controlled local spending**. To achieve this, the tasks of the different levels of local authorities should be clarified to avoid duplicating actions and reduce administrative complexity, and financial transfers to local municipalities should remain controlled.

Major public policies should be more efficient

Without conducting exhaustive research, the *Cour des comptes* sought to make use of recent studies to promote certain drivers for improving the efficiency of some major public policies that represent the main discrepancies in spending between France and the eurozone.

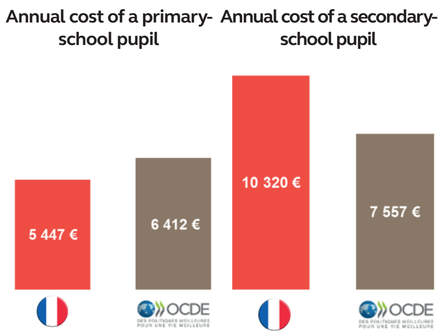
Disparity in public spending between France and eurozone countries (as % of GDP, in 2015)



Source: Cour des comptes*, based on Eurostat data in COFOG format, 2015*

Regarding **schooling**, the cost of secondary schools is higher in France than in other OECD countries. Adjusting these expenses would form a powerful driver of efficiency. Via such a driver, funding could be reallocated to teaching common core subjects, in which performance in France is mediocre in relation to the worldwide results of the OECD's programme for international student assessment (PISA). In **higher education**, there are several avenues worth exploring. For example, university funding could be reallocated according to activity and performance, and certain institutes could be grouped together on the same site to form a community of universities.

Annual cost per primary-school pupil and per secondary-school pupil in 2013



Source: Cour des Comptes*, based on OECD data*

In **domestic security**, several drivers could improve the efficiency of police and security forces. Personnel could be redeployed differently according to region, both in terms of police officers and gendarmes, to tackle crime in a more targeted manner. A more far-reaching reform of how police forces are organised nationally is required: criminal investigators and regional public-security services could be incorporated within the same network. On a judicial level, the police force and gendarmerie could complement each other more efficiently. Lastly, security forces' support departments could be pooled.

Several possibilities should also be considered to boost efficiency of France's **housing policy**. In terms of social housing, the *Cour des comptes* has put forward two main possibilities to explore. Firstly, priority should be given to lower-earning, underprivileged categories of the population by reducing the upper-income limit in socially sensitive urban zones. Secondly, public policy should refocus on managing existing housing more actively. Regarding housing allowances, there needs to be more consideration of efforts made by tenants in real terms, according to whether they enjoy social housing (HLM) or inhabit a private housing unit. Finally, tax concessions in private housing should be re-examined (reduced VAT, tax allowances designed to favour rental property, etc.). Not only do these policies produce considerable perverse effects, but their efficiency is far from certain.

As a ratio to GDP, France's level of spending on healthcare is among the world's highest (11.1% in 2014). Efficiency savings need to be made by remodelling the service, whether in terms of hospitals or local general practitioners. Savings could also be made by developing outpatient surgery in place of conventional surgery, by better controlling hospital prescriptions, and by covering the costs of long-standing illness via a comprehensive flat rate for professionals rather than on a fee-for-service.

Drivers to make public spending more efficient

Significant reforms have been undertaken in terms of **pensions**, in the private sector, then in the public sector. The financial viability of these schemes has thereby been improved. Yet these changes are not enough to ensure lasting financial balance, which require further measures to be taken. In terms of method, reforms should be discussed in a different way to how talks have been conducted in the past. A formal consultation framework should be put in place for talks between the state, labour-relations representatives, and pension-scheme directors, especially so that discussions on social-security schemes and jointly governed schemes can take place simultaneously. Furthermore, changes undertaken should seek greater fairness between people in employment, between pensioners and people in employment, and between different generations of pensioners and different professional statuses.

Lastly, there is room for more efficiency in **policies on employment, training, and unemployment benefits**. The *Cour des comptes* has put forward several ways of reorientating state-subsidised jobs, which have resulted in a low level of professional integration. These jobs should target unqualified or underqualified youngsters; more state-subsided jobs could be offered in the commercial sector; the maximum duration of these jobs could be shortened, with the activity forming a path to employment supplemented with a training course that pre-qualifies or qualifies the participant, constituting an apprenticeship or professionalisation contract.

Concerning unemployment benefits, the *Cour des comptes* identified various avenues worth exploring in 2015. Several parameters that determine the costs of unemployment benefits should be revised: salary-replacement rate; minimum period of registration; duration of the period over which benefits are received; maximum amount of benefits; scope of registered public employers; cap on calculation basis for contributions; rate of contributions; and variations in contributions.

Lastly, professional-training providers abound, adding to coordination difficulties. A review of the plan to offer 500,000 training courses is due in 2017. This will give a qualitative assessment if the scheme's results and help provide a structural, coordinated response to the issue of training jobseekers.

Conclusion

The audit carried out by the *Cour des comptes* has revealed that failure to alter current policy would place France's public finance on a path that swerves far away from the course set by the 2017 finance act and Stability Programme. This jeopardises both the cut in deficit planned for 2017 and the continued fall in deficit forecasted for 2018.

Far-reaching changes are therefore required today in managing the country's public finance. In the short term, immediate corrective measures are needed to ensure that the deficit does not run out of control in 2017. Beyond 2017, purposeful action in public spending should be taken to make France's public finance tenable once again. This can be done by rectifying a remarkable lack of efficiency weighing upon certain major public policies.

For such a change to come into effect, three conditions are vital: an improvement in collective teaching on public spending; wholehearted sincerity as a basis of financial texts; and full involvement of all stakeholders, who should be given a greater sense of responsibility.

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