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Report to Parliament
on public spending during the crisis
and an operational review of how this expenditure was used

Communication to the National Assembly's Committee on Finance, the Général Economy and Budgetary Audit

Abstract

A very sharp increase in public spending in 2020

In 2020, total government expenditure increased very sharply (+€73.6 billion[1] or +5.5%), due to spending generated by the health crisis and by the resulting economic and social consequences. Consolidated public expenditure accounted for 61.8% of GDP (which contracted 7.9% in volume), compared to 55.4% in 2019. Excluding tax credits[2], it showed an even more pronounced increase of €93 billion, or +7.1%.

At the request of the Finance Committee of the National Assembly, the Court analysed trends in public spending in 2020, whether related to the crisis or not. It applied a specific method, aimed at separately assessing changes in the expenditure of each public administration. The Court incorporated in its analysis transfers between administrations, in the national accounts and in their own accounting systems[3]. As an exception to this principle, three accounting operations were eliminated for the purposes of the analysis[4].

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[1] According to INSEE and Eurostat rules, expenditure is assessed here according to national accounting methods and is consolidated by eliminating transfers between public administrations.

[2] Some tax credits are recorded as expenditure in the national accounts, but in budget documents, the government also cites expenditure excluding tax credits. This is particularly relevant in 2020 given the effect of the cancellation of the employment and competitiveness tax credit (CICE), which reduced government spending by €18.5 billion in 2020.

[3] Budget accounting for the government, general accounting for social security administrations and mixed accounting for local authorities.

[4] The cancellation of the CICE, which affects comparability between 2019 and 2020, the takeover of €25 billion of debt from SNCF Réseau by the government, which did not give rise to a budget expenditure, and the exceptional allocation of €4.8 billion from the CNAM to Santé Publique France, to avoid double accounting.

Within the framework determined by taking into account these restatements, the increase in public spending totalled €96.4 bn, 86% of which corresponded to crisis-related expenditure. Ordinary expenditure, unrelated to the crisis, accounted for 14% of the increase in public spending.

The establishment and financing by the government of a wide range of support measures for businesses and households

A predominant share of the cost of crisis response measures was borne or compensated by the State, whose expenditure (budget accounting) increased by 15.5% (+€52.3 billion). These measures were mainly implemented via the new programme, the *Public Health Crisis Emergency Response Plan*, for a total of €41.8 billion, as well as through other programmes under the general budget, for €12.1 billion, and financial instruments separate from the general budget. The savings generated by the crisis were limited (-€4.4 billion) and mainly corresponded to simply observed (with the exception of military equipment expenditure, which has been carried forward), while non-crisis expenditure continued to increase significantly (+€6.9 billion or 2.1%, despite a saving of €4.1 billion in the cost of debt). The increase in government spending accounted for more than half (61%) of the increase in the budget deficit, which came to €178 billion in 2020.

Thus, the cost of the solidarity fund, initially set up for the smallest companies and gradually expanded, amounted to €11.8 billion in 2020. The financing of two thirds of expenses of the short-time working scheme represented a budget expenditure of €17.8 bn for central government, with Unédic funding the remaining third. The State also financed exemptions and support for the payment of social security contributions for businesses, set up bank loan guarantees, as well as many sector-based support programmes, particularly in the transport sector, for example through the acquisition of holdings in strategic companies.

With regard to households, apart from the short-time working scheme, central government funded employment assistance schemes including apprenticeship subsidies, exceptional solidarity payments for low-income households, young people under 25 years of age and students, as well as other targeted schemes.

Finally, central government also put in place support measures for local authorities and contributed to the European Union support package set up in 2020.

A sharp increase in spending for social protection schemes, focused on public health insurance and Unédic

Spending for social protection schemes also increased significantly, mainly due to healthcare expenses financed by the public health insurance fund and the share of the cost of short-time working funded by Unédic.

In 2020, the net cost of the mandatory basic social security schemes and the old-age solidarity fund increased by €26.8 billion, or +5.3%.

During the crisis, mandatory health insurance made a very significant contribution to finance expenditure directly and indirectly linked to the crisis, for a gross amount estimated at more than

€24 billion by the Court. This expenditure replaced payments by the public health insurance fund to healthcare and medical and social facilities and health professionals which would have been made if the health crisis had not occurred.

Direct expenditure takes many forms: additional expenses directly caused by the epidemic (e.g. the exceptional allocation to Santé Publique France to finance purchases of masks and personal protective equipment, the cost of screening tests, additional staff costs and exceptional bonuses for employees of healthcare and medical and social facilities, exceptional sick pay), as well as loss of income compensation for non-hospital healthcare and medical and social institutions and health professionals.

These direct expenses are in addition to expenditure indirectly linked to the crisis, such as the increase in daily sick pay under ordinary law and the cost in 2020 of pay rises for the staff of healthcare and medical and social facilities decided under the 'Ségur de la Santé' agreements, the cost of which is expected to rise sharply in 2021.

This additional expenditure was accompanied by savings of a significantly lower amount, such that expenditure (net of certain income) falling under the national healthcare expenditure target (Ondam), which covers the majority of public health insurance scheme spending, increased by €19.3 billion compared to 2019 and exceeded the initial forecast set out in the 2020 Social Security Finance Act by €14 billion.

For its part, Unédic recorded €14.6 billion in additional expenses compared to 2019 (+35.4%), due to the financing of one third of the cost of the short-time working scheme and the increase in unemployment compensation expenses, partly triggered by exceptional measures (extension of entitlement, specific aid for performers with short-term contracts).

A decrease in spending by local authorities

In 2020, local authorities recorded a significant decrease in their expenditure (-0.9% at constant scope, or a decline of -€ 2.3 billion). In view of the State’s support measures, which resulted in additional transfers, estimated at least at €1.5 billion, and repayable advances (€1.6 billion), the decrease in their revenue was comparable to the fall in their expenditure (-0.9% taking into account the State’s compensation measures). Local authority finances were overall spared by the crisis, although some could have been called upon to contribute more.

Emergency measures overall implemented quickly and effectively

As soon as the health crisis began, the government put in place numerous measures to support the economy, households and the healthcare system. As well as covering healthcare costs – the immediate and direct consequence of what was primarily a health crisis – general government financed a wide range of measures which, due to their diversity, responded considerably to the economic and social difficulties caused by the crisis and, according the words used by the President of the Republic in his television speech of 12 March 2020, "whatever the cost".

A review of the operating conditions of most schemes set up in response to the crisis shows that public administrations were extremely responsive, enabling the crisis response programmes to be quickly implemented as of the first lockdown. This was the case, for example, for the solidarity fund, but also for state-guaranteed loans, with banks responding very quickly. Similarly, the short-time working scheme was implemented quickly and efficiently, with an attractive system adapted to various situations. Those entitled rapidly received exceptional sick pay. In all cases, IT tools were effectively set up to ensure continuity of income for businesses and households. Hiring support measures took longer to take off.

As regards health expenditure resulting directly from the crisis, the initial shortage of certain preventive tools (masks and personal protective equipment) and the development of the epidemic led to the implementation of emergency responses in changing and often difficult conditions.

Schemes providing protection to beneficiaries

In general, the eligibility criteria and the methods for calculating public support were almost systematically defined broadly, as shown by international comparisons. The financial support provided was particularly generous in comparison with other countries.

In healthcare, Covid-19 screening tests are fully funded by the health insurance fund, even when the person tested has no symptoms or has not been in contact with an infected person. In addition, to encourage medical laboratories to offer tests and rapid results, laboratory fees were set at a high level for more than one year; these fees have only been at a level comparable to those of our neighbours since June 2021.

In addition, particularly wide-ranging schemes to compensate for loss of revenue and additional staff and equipment costs benefited public and private healthcare and medical and social facilities affected by reduced revenue and increased costs, particularly payroll costs, and non-hospital professionals affected by restrictions during the first lockdown, though without fully offsetting their loss of income. As far as health care facilities are concerned, such compensation covered the loss of revenue usually provided by the public health insurance fund, as well as revenue usually received from supplementary health insurance funds and patients.

As regards support for businesses, the solidarity fund overall represented a higher financial burden than in other countries. Payments from the fund were not subject to tax and recipients were also eligible for other support schemes. Regarding compensation for short-time working, the upper limit on salaries for the calculation of support is higher than in other comparable countries. Furthermore, the state-guaranteed loan scheme, which offered lower interest rates than elsewhere, was used more widely. The companies and self-employed workers the most affected by the crisis benefited from measures to reduce social security contributions, while all companies were eligible to defer the payment of social security contributions, which eased their cash flow and concomitantly increased the borrowing requirements of social security bodies. All forms of support were particularly extensive for companies in the sectors most affected by the crisis.

In many cases, the possibility of receiving multiple types of aid made these schemes even more generous. Many companies used several of the support measures to which they were entitled, in addition to sector-based plans set up alongside the support provided under ordinary law. The support provided to certain sectors or beneficiaries included numerous, diversified measures, for example for the cultural sector or support for the poor or young people. The risk of major windfall effects arose, for example with the overlapping of the short-time working scheme and the solidarity fund, or with the potential optimisation of state-guaranteed loans.

This support largely protected the country from the economic and social effects of the crisis, at the cost of an increase in public debt

These massive emergency measures, in the form of aid for companies (the solidarity fund, short-time working, state-guaranteed loans, reductions and deferrals of social security contributions) and households (extension of unemployment benefit entitlement, exceptional support for the poorest people) generally achieved their short-term objectives. For example, they helped prevent bankruptcies, avoided a sharp increase in unemployment, contained the worsening of poverty and, more broadly, preserved household income, despite some disparities, particularly to the detriment of socially excluded workers or students.

French public finances thus played an essential role in mitigating the economic and social consequences of the slump in national production, partly replacing employers or customers, at the cost of a sharp increase in public debt. Compared to 2019, public debt increased by nearly 20 percentage points of GDP, to 115.1 percentage points of GDP (i.e. €2,650 billion).

However, the economic situation at the end of the crisis shows major uncertainties. Due to the length of the support provided, it has artificially kept companies likely to disappear afloat or delayed adjustments to the productive fabric. However, the very significant increase in corporate liquidity and household savings could have a positive impact on the economic situation at the end of the crisis.

Increasing complexity and a significant risk of fraud

As the continuation of the crisis has increased the difficulties of some parts of the economy, it was decided to expand and extend a significant number of schemes, at the cost of increasing their complexity and cost.

For example, support granted by the solidarity fund has become more complex as business and travel restrictions have changed. This support has been reviewed almost every month, and the list of eligible recipients has been frequently amended, according to increasingly complex rules. Similarly, with regard to short-time working, the distinction between sectors has changed frequently. In addition, until mid-May 2020, there was no clear distinction between the respective roles of short-time working and exceptional sick pay. Finally, the large number of schemes aimed at preserving compensation for jobseekers has led to very contrasting situations depending on the sectors of activity. Vocational training support has benefited more highly qualified employees and the least threatened sectors of activity.

The reduction of prior controls, intended to ensure fast payments, together with the increase in the amounts paid and the extension of payment period, have given rise to a significant risk of fraud. This applies, in particular, to short-time working, support from the solidarity fund and sick pay. In addition, the interruption of tax and social security audit activities reduced the effect of the usual anti-fraud measures. The reintroduction of these audits and the implementation of ex-post audits on support measures, covering a wider scope, appear necessary to reduce manifest abuse and penalise fraud.

A greater need to control public spending after the health crisis

The consequences of the health crisis on trends in public spending are expected to be felt far beyond 2020. Indeed, the increase in expenditure in 2021 is expected to exceed 2020 and, beyond that, many elements suggest this trend will continue over the long term.

An even higher increase in spending in 2021

The continued increase in spending in 2021 will result from several factors: the extension of support measures in response to the crisis, the implementation of the recovery plan and the continuing high level of spending across general government, over and above simply the direct effects of the crisis.

Thus, the draft supplementary finance act for 2021, presented to the Council of Ministers on 2 June 2021, provides for a further rise in expenditure for all public administrations, with an increase of €66 billion[5] compared to 2020 (i.e. +4.7% in value and +3.6% in volume), under the effect of three factors: measures in response to the health crisis (which should only decrease by 5.5% compared to 2020), expenditure under the recovery plan (expected to amount to €30 billion in 2021), and the continued rise in spending unrelated to the crisis (which is set to increase by 2.3% in volume in 2021).

Regarding expenditure under the national healthcare expenditure target (Ondam), given the announced overspend of €9.6 billion compared to the forecast in the 2021 social security finance act, it could increase by €15.6 billion in 2021 compared to the provisional amount recorded for 2020. In particular, besides the direct impacts of the crisis (tests and vaccines), this expenditure includes the full-year effect of the measures of 'Ségur de la Santé' agreements.

The challenge of controlling public spending beyond 2021

The Court has called[6] for the costly business support arrangements to be phased out as soon as the crisis ends, and beyond this, for the pace of public spending to be slowed by performing a public spending review to improve its quality and identify potential sources of savings.

Indeed, several factors could hinder or limit the slowdown in public spending. Firstly, some support measures put in place during the crisis could be maintained or have a financial impact beyond the period of the health crisis. In addition, some measures decided during the crisis will be continued, such as pay rises in public and private healthcare and medical and social facilities under the 'Ségur de la

[5] In the national accounts.
[6] Court of Accounts, report to the Prime Minister "A Public Finance Strategy for the End of the Crisis", June 2021, La Documentation Française, available at www.ccomptes.fr.

Santé' agreements (nearly €9 billion in 2022, plus the investment plan in healthcare and medical and social facilities). Finally, spending under the recovery plan will be spread over several years, and may be at least partially extended in the same way as the Future Investment programmes.

However, the return to a sustainable path in public finances requires resolute action on public spending so as to commit to reducing the ratio of debt to GDP. In this regard, the stability programme submitted by the government to the European Commission in April 2021 sets a target of limiting rise in primary expenditure to 0.6% in volume over the period 2023-2027, or half as much as the average increase over the ten years preceding the crisis (2010-2019). While this objective appears to be less ambitious than those announced by France's partners in Europe, its implementation will require a method and reforms that are able to reverse the growth in public spending over the long term.

At the end of its analysis, and without prejudice to the recommendations made in other reports on the handling of the health crisis, the Court makes six recommendations aimed at clarifying the funding channels of crisis-related expenditure, making support more relevant and better targeted, increasing audits, phasing out support measures, and learning from the best practice experimented during the health crisis.

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Recommendations

1. Phase out the earmarked accounts of Santé Publique France intended to finance crisis-related purchases made by the Ministry of Health and other earmarked accounts with similar purposes in 2021, and finance these purchases with budget appropriations (*Budget Department, Social Security Department, General Directorate for Health*) ;
2. In order to ensure the proper payment of the compensation for loss of activity of contracted healthcare professionals (Dipa), systematically check that the declarations made by beneficiaries match the data held by the administrations that paid the financial assistance used to calculate this assistance, and recover all undue payments (*Social Security Department, Cnam (public health insurance fund)*);
3. Roll out tools to calculate the aggregate amount of support of all types paid to businesses, identify cases contrary to European regulations where the total amount of support received significantly exceeds the decline in operating profit actually recorded in 2020, and recover at least part of the difference (reformulated recommendation) (*DGFiP (tax authority), General Directorate for Business, DGEFP (employment and professional training department)*);
4. Support the expansion of support schemes and the increase in the amount of support paid to businesses by means of an enhanced fraud prevention and sanction system (renewed recommendation) (*DGFiP, General Directorate for Business, DGEFP*);
5. Organise the gradual phase-out of crisis support systems, by increasingly focusing eligibility and the level of benefits on the companies the most affected by mandatory closures. (*General Directorate of the Treasury, Budget Department, DGFiP, General Directorate for Business, DGEFP, DSS (social security department)*);
6. Identify measures to simplify administrative formalities and best practice implemented during the crisis and perform a review thereof with a view to the possible continuation of such measures. (*General Directorate of the Treasury, Budget Department, DGFiP, General Directorate for Business, DGEFP, DSS, Interministerial Department of Public Transformation*).