Cour des comptes

PUBLIC FINANCES AND ACCOUNTS

THE NATIONAL BUDGET IN 2019

Results and management

Summary Report

April 2020

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 response of the the Ministry of Public Action and Accounts appear after the report.

Contents

The constitutional mission of assistance of the Audit Office to the Government and Parliament

The closure of the budget year and settlement of accounts requires the government, in application of article 46 of the Constitutional Bylaw on Budget Acts of 1 August 2001, to introduce a budget review bill before 1 June of the following fiscal year. This retraces budget operations and closes the accounts of the past fiscal year. It is accompanied by a general account for the State, a management report and yearly performance reports concerning each of the missions of the national budget.

Within the framework of the mission of assistance to the government and parliament entrusted to the Government Audit Office under the provisions of article 47-2 of the constitution, provision 4 of article 58 of the Constitutional Bylaw on Budget Acts provides for 'a report filed conjointly with the bill of settlement concerning the budget outturn for the previous budget year and associated accounts, which, in particular, analyses the execution of credits per mission and per programme'.

The report on the national budget in 2019 aims to enable the assessment of the results of the budget year and the quality of budget management. Its publication, brought forward two weeks compared with the previous year, is accompanied by the online publication on the Government Audit Office website (www.ccomptes.fr) of 61 budget outturn analysis notes for each of the missions of the general budget and special accounts, three analyses of the outturn of fiscal revenue, non-fiscal revenue and fiscal expenditure, and two analyses devoted to withholdings on income for the benefit of territorial authorities and the European Union. The documents provide a deep analysis of the budget outturn per major public policy. They are accompanied by recommendations and complement the overall diagnosis formulated by the report on the national budget.

The Government Audit Office also monitors the recommendations it formulated in the reports concerning the management of the national budget established for 2017 and 2018. In addition, it monitors the 50 recommendations sent by the First President in a référé, on 19 July 2017, to the Minister of Public Action and Accounts. This référé identified the recommendations made by the Government Audit Office in the budget outturn analysis notes for the previous years and for which rapid implementation was considered to be accessible. The Government Audit Office decided to follow the recommendation of the référé in the budget outturn analysis notes for a period of 3 years; it is therefore doing it this year for the last time.

Introduction

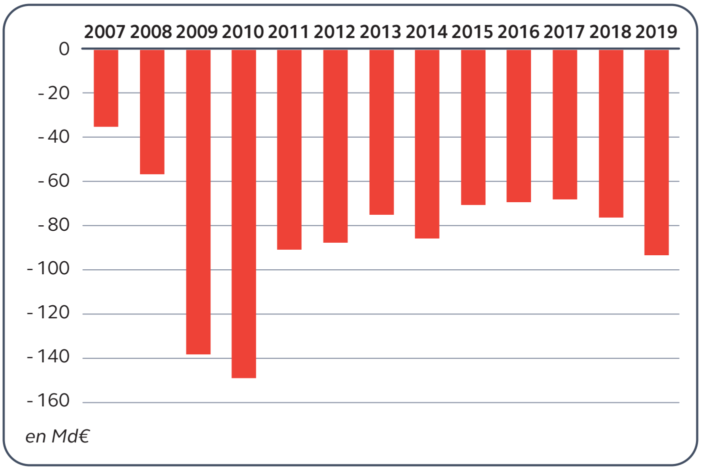
The national budget outturn report for 2019 is published by the Government Audit Office in application of provision 4 of article 58 of the Constitutional Bylaw on Budget Acts of 1 August 2001. **It covers 2019, therefore a period prior to the beginning of the health crises.**

This report was finalised during a period when the health situation imposed a confinement that also applied to financial jurisdictions and administrations.

It does not cover 2020 and the consequences of the crisis on public finance. These will be the subject of an initial analysis in June 2020 in the Government Audit Office's report on the situation and the outlook for public finances.

In 2019, the national budget outturn was marked by several specific events. With respect to revenue, two major reforms took place, with the deployment of withholding tax on income and the replacement of the tax credit for competitiveness and employment (CICE) by reductions in social security contributions. The budget programme provided for by the government financial bill for 2019 was significantly amended during the parliamentary debate with the adoption, in December 2018, of measures to support household purchasing power. These events significantly influenced the 2019 budget year, which ended with a sharp increase in deficit compared with 2018, even if it was less than that projected in the Initial Budget Act.

National budget balance in 2007-2019



Source: budget review act for 2007 to 2018, the budget directorate for 2019

Introduction

The pace of the progression of state expenditure grew but the improvement in budgeting and the outturn of expenditure, observed in 2018, was confirmed in 2019. Examination of all the resources mobilised for the deployment of public policies reveals the necessity to reinforce the supervision of fiscal expenditure, allocated taxes and funds with no legal personality.

1 The national deficit deteriorated sharply in 2019 for temporary reasons

National budget balance in 2018 and 2019

In €bn	Budget outturn 2018	Budget outturn 2019	Variation 2019/2018
General budget net revenue	248.3	233.3	-15.0
General budget net expenditure	325.2	330.3	5.0
General budget balance	**-76.9**	**-96.9**	**-20.0**
Annex budgets balance	**0.1**	**0.2**	**0.1**
Special accounts balance	**0.8**	**4.1%**	**3.2**
General balance	**-76.0**	**-92.7**	**-16.7**

Source: Government Audit Office (data from the budget directorate)

An increase in the budget deficit in 2019 due to a large extent to new measures with exceptional and temporary effects

The major changes that took place in 2019 had a notable impact on the balance of the budget (€-92.7 bn).

On one hand, the deployment of withholding tax in 2019 resulted in a loss of income tax revenue. Withholding tax on a large part of the revenue is collected by the State with a delay of one month; the sums withheld on the income of December 2019 were thus collected in January 2020 and are attached to the 2020 budget year, leading to a loss of revenue of €5.2bn in 2019. This effect will disappear in 2020, as the State now collects 12 months of withheld revenue every year.

On the other hand, in 2019 the combination of the CICE and the reduction of social security contributions that replaced it have led to a temporary double expense for the State. Indeed, to compensate the loss of revenue for the social security administrations, a new portion of VAT was transferred to them, leading to a decrease in the yield of this tax for the State, whilst the CICE still burdened the national budget for €19.2bn in 2019. Its cost will decrease progressively; it is estimated at €9bn in 2020.

The national deficit deteriorated sharply in 2019 for temporary reasons

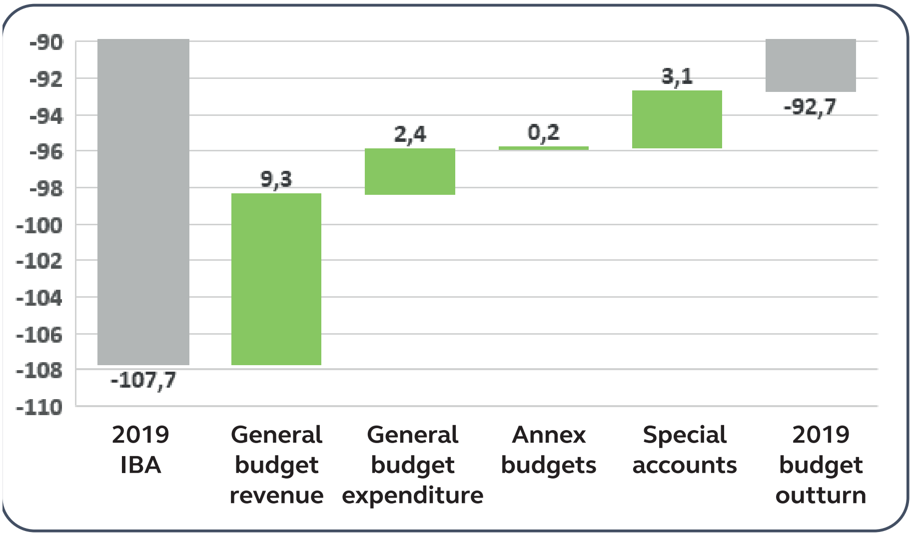
Beyond these exceptional and temporary losses in revenue, the deterioration of the deficit is also due to the consequences of the measures decided in December 2018 following the social movements of the autumn, which entailed permanent additional expenditure or less revenue for the State, for a total cost of €7bn in 2019.

Correcting it for these two exceptional effects (the cost of the CICE, €19.2bn, and the loss of income tax revenue, €5.2bn), the national deficit for 2019 was €68.3bn, which, all being equal, represents an improvement of €7.7bn compared with 2018.

A budget deficit less than in the initial budget act

Although the national budget deficit significantly increased in 2019, it is less than forecast: the deficit is therefore €15.0bn lower than that projected in the initial budget act. This difference is partially the result of expenditure, which was €2.4bn less than the initial forecast, principally due to lower debt servicing costs (-€1.8bn). Nevertheless, the improvement of the budget balance is essentially the result of revenue that was much more dynamic than expected (+€9.3bn) – notably including fiscal revenue (+€7.8 bn) – and an improvement of €3.1bn in the global balance of special accounts (including revenue of €1.8bn from the sale by the State of shares of La Française des Jeux).

Passage from the Initial Budget Act to the 2019 budget outturn (in €bn)

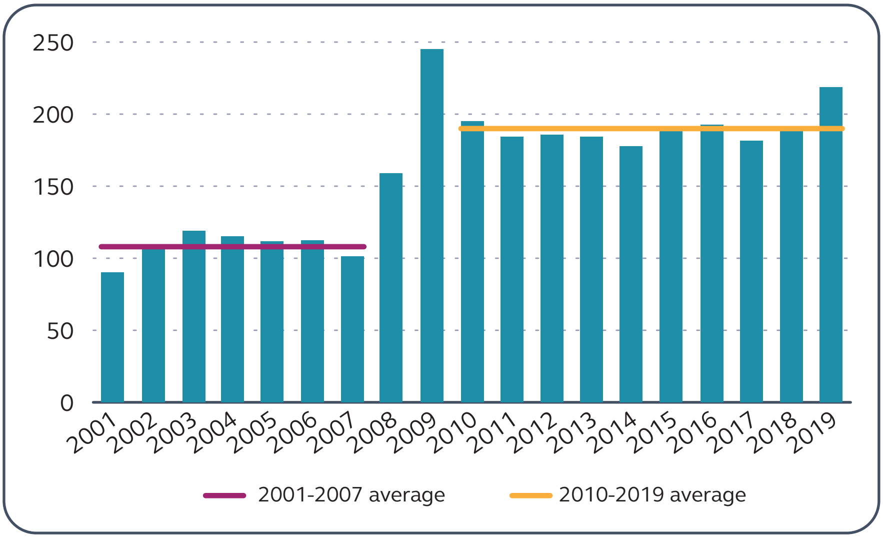


Source: Government Audit Office (data from the budget directorate)

The national debt continued to grow at a fast pace in 2019

Due to the high level of budget deficit, the national debt increased sharply in 2019 to reach **€1822.8bn**. The need for state financing (essentially corresponding to the amortisation of the debt and the deficit to be financed) reached €220.5bn, a much higher level than average for the 2010-2018 period (€188bn). The issuance of mid- and long-term debt reached the ceiling voted in the initial budget act (€200bn in 2019), regularly increasing over several years considering the accumulated deficits.

Needs for national financing (in €bn)



Source: Agence France Trésor
NB: The presentation of the financing table was changed in 2014. The series in the new format has been approximately reconstituted before 2006, resulting in a slight break in the series for 2006.

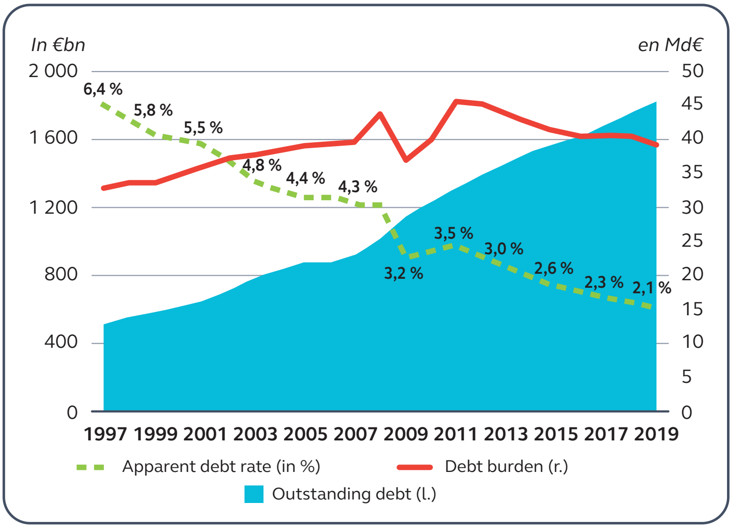
The evolution of the public debt was nevertheless partially checked by the high amount of premiums and discounts on issuance, reaching €19.9bn (net of buybacks), a level that was clearly superior to that of 2018 (€10.8bn), within a context of a sharp decline in interest rates during the first part of 2019 and a market appetite for the issuance of securities based on older instruments with higher coupons. The premiums received since 2015 contribute to the reduction of the public debt ratio (98.1 GDP percentage points) by 3.2 GDP percentage points for all public administrations for 2019.

The national deficit deteriorated sharply in 2019 for temporary reasons

Debt servicing costs decrease in 2019

However, the growth of the national debt did not entail an increase in debt servicing costs, which stood at **€39.1bn** in 2019. On the contrary, the continuation of the decrease in interest rates and the reduction in inflation reduced the debt burden between 2018 and 2019 (-€1.4bn). The strong growth of the national debt since the crisis of 2008 (+98%) nevertheless makes the state highly vulnerable to rate increases.

National debt burden and outstanding debts during the 1997-2019 period



Source: Agence France Trésor

Summary of the report on the national buget in 2019

2 Net national revenue decreased in 2019 due to the increase of the portion of VAT allocated to social security

After withholdings on income for the benefit of territorial authorities and the European Union, national revenue reached **€233.3bn**, i.e. €15.0bn less than in 2018. This decrease is the principal reason for the aggravation of the national budget deficit in 2019.

Revenue in the national general budget (in €bn)

In €bn	Outturn 2018	IBA 2019	Outturn 2019	Variation 2019/2018
Net fiscal revenue	295.4	273.5	281.3	-14.1
Non-fiscal revenue	13.9	12.5	14.0	0.1
Net revenue	**309.3**	**286.0**	**295.3**	**-14.0**
Withholdings on income				
- for the benefit of the European Union	-20.6	-21.4	-21.0	-0.4
- for the benefit of territorial authorities	-40.3	-40.6	-40.9	-0.6
Net revenue after withholdings on income	**248.3**	**-224.0**	**233.3**	**-15.0**

WOI: Withholdings on income
Source: Government Audit Office (data from the budget directorate)

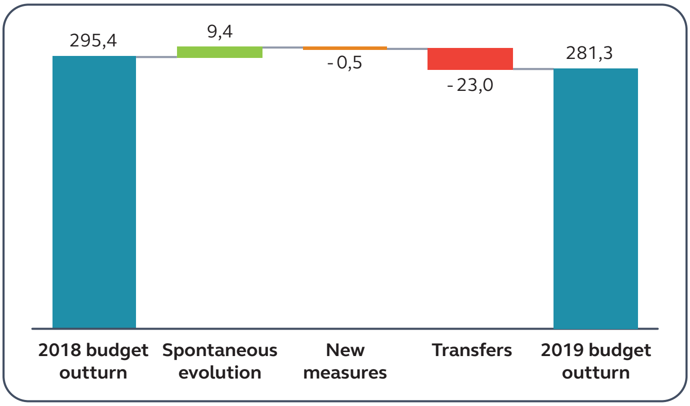
The decrease in national revenue is essentially due to fiscal revenue, which fell by €14.1bn between 2018 and 2019. This decrease can be principally explained by the increase in the portion of VAT allocated to social security administrations (+€31.2bn) in return for the increase in the reduction of social contributions and the allocation to the State of part of taxes on capital revenue formerly funding social security.

Added to this measure of transfer are the temporary effects that burdened fiscal revenue in 2019

(cf. page 7): the maintenance of the cost of the CICE (€19.2bn) and the one-off loss of revenue (€5.2bn) due to the deployment of the withholding tax that led to, for a large portion of revenues, only 11 months of income tax revenue to be recorded for 2019.

Net national revenue decreased in 2019 due to the increase of the portion of VAT allocated to social security

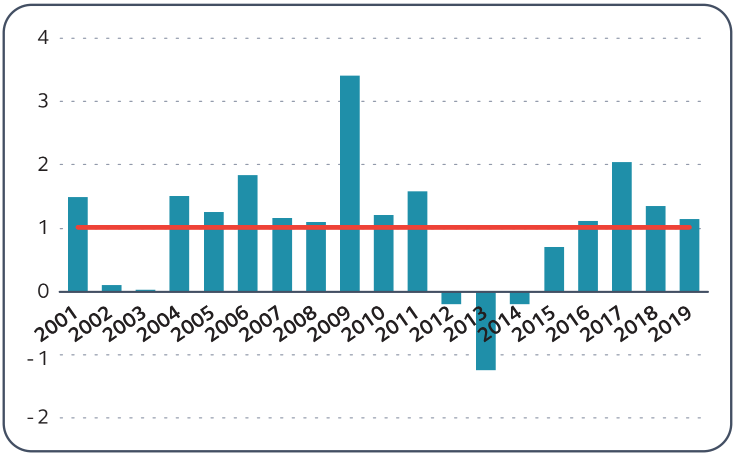
Evolution of national fiscal revenue between 2018 and 2019 (€bn)



Source: the budget directorate, Government Audit Office calculations

Excluding all new measures, the 'spontaneous' evolution of fiscal income in 2019 is +3.2%. Their GDP elasticity, i.e. the relationship of their growth rate to that of the GDP, thus reaches 1.1, a value close to the average observed since 2001.

GDP elasticity of fiscal revenue over the 2001-2019 period



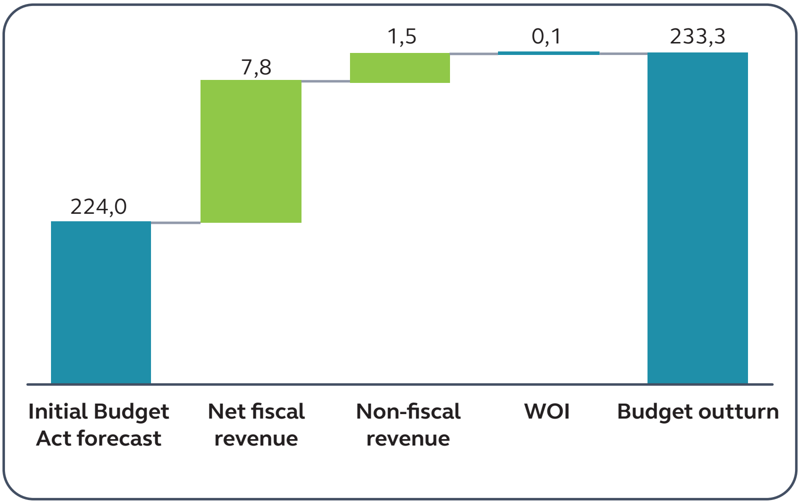
Source: budget documents, the budget directorate for 2019, Government Audit Office calculations

Net national revenue decreased in 2019 due to the increase of the portion of VAT allocated to social security

Net state revenue very superior to the forecast of the Initial Budget Act

Although it has decreased when compared with 2018, the yield of the State's net revenue (after withholdings on income) in 2019 exceeded the initial forecast by €9.3bn.

Net state revenue in 2019 (after withholdings on income) – difference between the forecast and the budget outturn (€bn)



WOI: Withholdings on income
Source: Government Audit Office (data from the budget directorate)

Fiscal revenue accounted for the greater part of this gain (+€7.8bn). The difference derives in part from income tax (+€1.3bn), corporate tax (+€2.0bn), but especially from 'other net fiscal revenue' (+€4.5bn). This category, which groups different revenue (withholdings at the source on investment revenue, donation and inheritance rights, property wealth tax, taxes on capital revenue previously allocated to social security entities, etc.), benefited from the dynamics of investment revenue and the good health of the property market.

Non-fiscal revenue, reaching €14bn in 2019, was €1.5bn higher than projected in the Initial Budget Act due to gains in various categories of revenue, notably including fines.

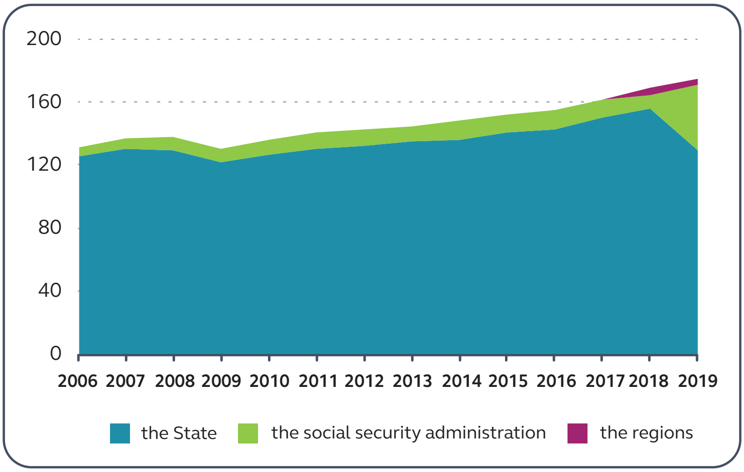
A significant increase in State tax sharing

2019 marks an evolution in the sharing of state fiscal revenue. With an increase of €31.2bn in the amount of VAT allocated to the social security administration, it is now over a quarter of this tax that is no longer received by

Net national revenue decreased in 2019 due to the increase of the portion of VAT allocated to social security

the State, as the regions themselves already receive a portion (2.45%). This sharing should increase in the future because from 2021 the French departments should in turn receive a portion of the VAT within the context of the reallocation of taxes related to the cancellation of the residence tax.

Distribution of VAT between the State, social security and the regions, 2006-2019 (€bn)



Source: Insee, national accounts until 2018, Ministry for Public Action and Accounts for 2019
NB: the portion represented in 2019 (€41.5bn) for social security corresponds to the cost for the national budget in 2019 and not for social security accrual revenue.

An increase in withholdings on income compared with 2018

Withholdings on income (WOI), for a total amount of €61.9bn in 2019, increased by €0.9bn compared to 2018. WOI for the benefit of the European Union reached €21bn in 2019, i.e. €0.4bn more than in 2018, but €0.4bn less than projected in the Initial Budget Act, for reasons that are a priori one-off and not permanent.

WOI for the benefit of territorial authorities stood at €40.9bn, an increase of €0.6bn compared with 2018. This progression is compliant with the new contractual framework established between the State and local authorities implemented by the public finance programming law for 2018-2022.

3 State spending accelerated in 2019 but the improvement of budgeting and management is confirmed

General budget expenditure (excluding fonds de concours and attributions de produits) reached €330.3bn in 2019, i.e. €2.4bn below the Initial Budget Act forecast, notably due to savings of €1.8bn on the debt burden.

Realistic budgeting, as in 2018

The significant improvement of expenditure budgeting and risk management observed in 2018 was confirmed in 2019. Under-budgeting identified by the Government Audit Office stood at €1.44bn, a level close to that of 2018 and much lower than previous years. The adjustment of the level of credit for expenditure enabled the limitation of the amount of credit placed in reserves to manage contingencies. As in 2018, and for the second time in over thirty years, no decree of supplemental appropriation was necessary in 2019. The opening and annulation of credit during the period, exclusively performed in the Supplementary Budget Act at the end of the year, remain clearly lower than the average observed during the previous ten years.

Expenditure targets partially respected

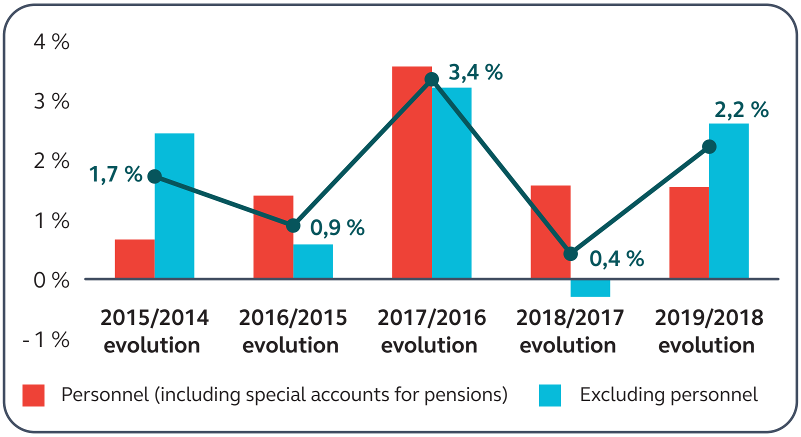
Concerning expenditure norms, the ceiling defined in the IBA for the scope of ‘steerable expenditure’ was respected: in the outturn, expenditure was €1bn below this ceiling. Nevertheless, the government announced at the beginning of 2019 its intention to save €1.5bn to contribute to the measures decided after the social movements of autumn 2018: this ambition, set forth in the programme of stability in April 2019, was not respected. Moreover, considering the acceleration of expenditure in 2019, the ceiling fixed by the law of public finance programming of January 2018 for the same scope of steerable expenditure was exceeded by €3.3bn.

An acceleration of expenditure compared with 2018

General budget expenditure (including fonds de concours and attributions de produits) grew by 2.2% in 2019 (on a constant consolidation basis), significantly higher than that of 2018 (+0.4%).

State spending accelerated in 2019 but the improvement of budgeting and management is confirmed

Rate of evolution of general budget expenditure

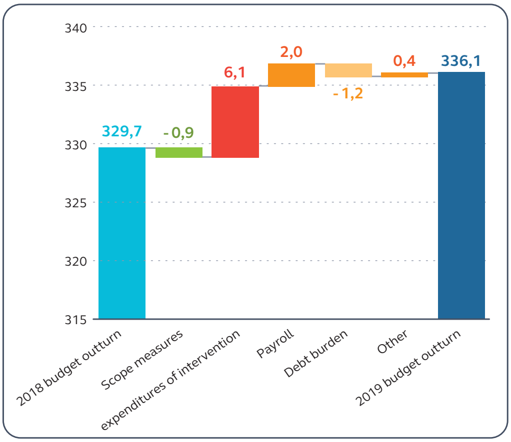


Note: rate of expenditure variation from one year to another, on an n/n-1 constant consolidation basis, without restating exceptional expenditure.

Source: Government Audit Office (data from the budget directorate)

This dynamic is the result of a strong increase in expenditures of intervention (subsidies, social benefits, etc) (+€6.1bn). In particular, following revaluation in December 2018, the cost of the employment bonus increased by €4bn in 2019. Employee costs also increased relatively sharply (+€2bn), despite the decrease in state personnel, for the first time since 2015.

Evolution of general budget expenditure between 2018 and 2019 (€bn)

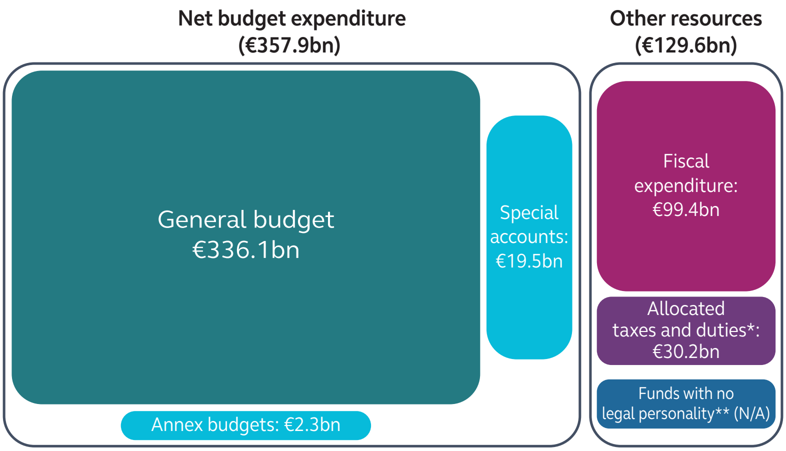


Source: Government Audit Office (data from the budget directorate)

4 Beyond the general budget, state financial resources require increased supervision

Apart from the general budget itself, this year the Government Audit Office wished to extend its analysis to all financial resources allocated to public policies by the State. This includes all annex budgets and special accounts, allocated taxes and duties, fiscal expenditure and funds without legal personality.

State resources at the service of public policies



* Taxes and duties allocated to third parties other than territorial authorities and social security entities

** This box is not proportional to the financial issues.

Source: Audit Office

NB: General budget expenditure includes credit opened for fonds de concours and attributions de produits.

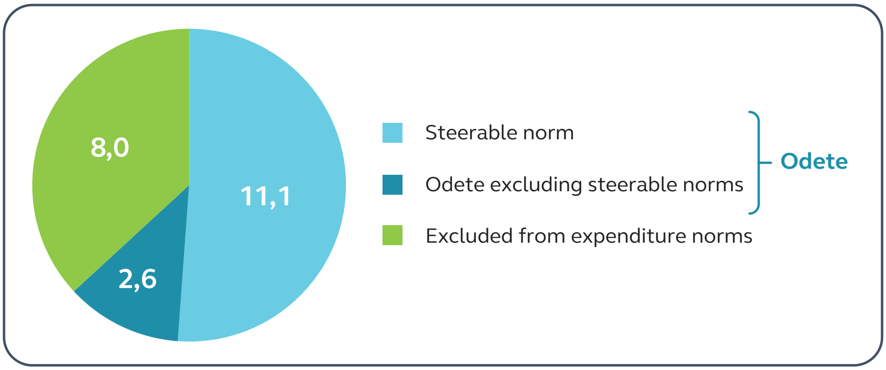
The examination of resources other than general budget credit shows that they do not systematically benefit from the same attention. Their assessment and simplification should be continued.

Beyond the general budget, state financial resources require increased supervision

Annex budgets and special accounts: expenditure partially excluded from norms

The operations of annex budgets and special accounts (€21.8bn, excluding double accounts with the general budget) are related to state expenditure and significantly contribute to the deployment of certain public policies. Although the information about them is globally satisfactory, a significant part of them (36.9%, i.e. €8bn in 2019) are excluded from any expenditure norm, whether it be within the scope of steerable state expenditure or within the broader scope of the objective of total state expenditure (Odete).

Expenditure of annex budgets and special accounts under norms in 2019 (in €bn)



Odete: Objective for total state expenditure.

Source: Government Audit Office (data from the budget directorate). Data excluding special accounts whose expenditures are not related to state expenditure.

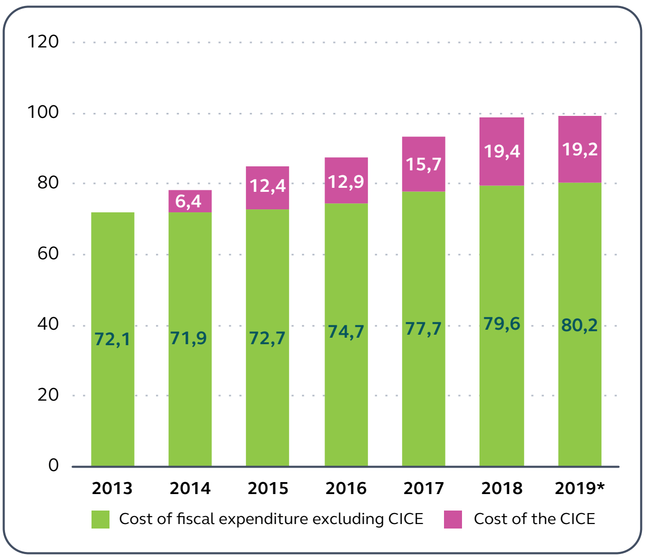
Allocated taxes and duties: financial resources less controlled than budget expenditure

In 2019, around 150 taxations of all types were allocated to third parties (other than territorial authorities and social security entities), for a total amount of €30.2bn. These financial resources are not voted by the parliament and are not monitored within the state budget, which obscures the readability of the resources devoted to public policies. Nevertheless, the supervision, via capping, of taxes allocated to state operators has progressed: the capped part increased from 29% in 2012 to 73% in 2019.

Fiscal expenditure: insufficient supervision

Assessed at €99.4bn in 2019, the amount of fiscal expenditure has regularly increased: it has progressed by 11.2% since 2013 (excluding CICE). Despite the importance of its cost, fiscal expenditure is not subject to coherent overall steering; its articulation with the public policy objectives to which it is supposed to contribute is not always ensured. Moreover, it is the subject of very insufficient supervision: the caps in the last two public finance programming laws are inoperative, their calculations are often faulty and comprise very few assessments.

Cost of fiscal expenditure over the 2013-2019 period (in €bn)



*Source: PLF for the years 2013 to 2020, reprocessed by the Government Audit Office * PLF data for 2020*

A re-examination of funds with no legal personality to be undertaken

The management of public policies via funds with no legal personality (financial vehicles controlled by the State, the management of which is entrusted to third parties) can be criticised in several respects: it forms a derogation to the principle of budgetary globality; it removes public action from parliamentary or administrative control; in certain cases it escapes from any type of monitoring. The objective of systematic re-examination and the rationalisation of these funds by the administration must be implemented.

Recommendations

Following the examination of the 2019 budget outturn, the Government Audit Office formulates 10 recommendations, including three new ones, to improve the information provided to parliament and citizens.

On results

1. Modify the presentation of the balance of resources and costs table in the budget act, deducting from gross state fiscal revenue only repayments and relief concerning state taxes, for the determination of net fiscal revenue (recommendation renewed).

On revenue

2. Present, in a budget document (budget review, means and resources annex to the budget act), the evolution of tax revenue for the past year by breaking it down between spontaneous evolution and new measures, specifying the impact of each of these measures (restated recommendation).

On the financial resources of state policies other than general budget credits

3. For each of the annex budgets and special accounts, examine whether the nature of these expenses requires a derogation to common law budgetary and accounting regulations and draw conclusions concerning its scope, its merger with another annex budget or special account or its reintegration within the general budget (new recommendation).

4. Reinforce the supervision of allocated taxation by strengthening constraints on the creation of new allocated taxes, by capping them, and scheduling the regular re-examination of their allocation by parliament (new recommendation).

5. In default of other sources of information enabling its calculation, plan a declaration obligation for each new fiscal expense concerning income tax and corporate tax (new recommendation).

6. Deploy the programme to assess the efficacy and efficiency of fiscal expenditure over the period remaining until 2022 (restated recommendation).

7. Similar to the budgeting charter that applies to budget expenditure under norm, formalise precise regulations to define or modify the scope of fiscal expenditure subject to the public finance programming law cap (renewed recommendation).

8. Complete the budget documents specifying the objectives to which the fiscal expenditure attached to each programme contribute, and accompany the most significant of these with performance indicators (renewed recommendation).

Recommendations

9. Carry out a global review of all funds with no legal personality controlled by the State and perform, by 31 December 2022, one of the following rectifications:

- removal or extinction of the funds that have no further reason for existence or whose objectives can be reached by other means;

- return of revenue and expenditure to the general budget, using, if necessary and if the legal conditions are met, the mechanisms of allocation provided for by the Constitutional Bylaw on Budget Acts and by placing the delegated management, if maintained, within the framework of an agency agreement;

- in default of this, the transfer of the mission to an existing operator to manage it under their responsibility and which incorporates the operations and resources allocated in its own budgets, accounts and activity reports, individualising them if applicable (renewed recommendation).

10. Replace the fund for innovation and industry by a support mechanism included in the general budget (renewed recommendation).