Mission transversale de méthode sur les domaines d'intervention de l'État et les outils d'intervention publique

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Pierre **CUNÉO**
Marie **TRUFFIER-BLANC**

**Inspection générale
des finances**

SUMMARY

INTRODUCTION

Launched in mid-March 2023, following the Prime Minister's letter of assignment dated 1st March 2023, the mission working on the spending review's methodology was carried out on the basis of in-depth contacts with the sponsors (*Élysée*, Prime Minister's cabinet, economic and financial ministries) and by calling on experts in the economics of public spending: the *Direction Générale du Trésor, the Institut National de la Statistique et des Études Économiques* (INSEE)*, the Direction Générale des Finances Publiques* (DGFIP), the Conseil d'Analyse Économique, Richard Hughes, Chairman of the Office of Budgetary Responsibility (OBR) in London, who conducted the 2007 Comprehensive spending review, and the teams at the Organisation for Economic Co-operation and Development (OECD) in charge of spending reviews.

The mission also launched additional complementary work:

◆ an analysis carried out by IGF's 'data sciences' unit on public spending by nature (types of intervention: subsidies, investments, purchases or payroll), by destination (so-called "cofog"[1] classification of administrative functions) or by public entity, both in intertemporal and international cross-section (EU-27 and Eurogroup member states);

◆ an international comparative study, mobilizing the regional economic services (SER) coordinated by the French Treasury.

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[1] Classification of the Functions of Government (COFOG) divides public expenditure into major public missions (a nomenclature of ten functions and sixty sub-functions). For national accounting purposes (S.13), "general government" (GG) is defined as "all institutional units whose principal function is to produce non-market goods and services or to redistribute national income and wealth, and whose resources derive mainly from compulsory contributions paid by units belonging to other institutional sectors. The general government sector includes central government (S.1311), local government (S.1313) and social security funds (S.1314)".

1. The necessity behind spending reviews is driven by the characteristics of public finances in 2023

In autumn 2023, France's public finances has the following characteristics:

◆ the highest level of public spending in Europe as a share of national wealth, with an overall spending gap of 7 to 10 GDP points compared to the average of our partners;

◆ one of the highest public deficits in Europe in the second quarter of 2023, and the last to return to 3% (in 2027) according to the latest public finance trajectories submitted to the European Commission;

◆ the fastest acceleration in the public debt ratio since 2000 (from 10 points below the Eurozone average: 60% vs. 70%, to more than 20 points above in 2022: 112% vs. 91%).

◆ the need for greater financial manoeuvrability, to be able to spend rapidly and in significant amounts, to finance priority public policies (cf. ecological and digital transitions in particular).

2. Like its peers, France conducts spending review exercises to improve the quality of public spending, in line with shared best practices

Spending reviews have for long been carried (1981 in the Netherlands, 1994 in Canada), and are increasingly common among our partners. In France, recent exercises (notably the General Review of Public Policies (RGPP), the Modernisation of Public Action (MAP) and *Action publique 22*) have, on different scales and in different ways, enabled us to take ownership of this type of approach, and to draw both initial reforms and a few lessons on how to conduct this type of exercise.

The French government has committed to the European Commission and our partners to launch such systematic reviews to improve the quality of public spending. In line with these commitments, spending reviews concern all types of expenditure (including "non-revenue" items such as tax and social security spending), and all public administrations (State, operators, local authorities and social security).

As a review of a coherent set of public policies or public spending, it must question the relevance, effectiveness, efficiency, equity, sustainability and accountability of public systems (see table 1). In practice, spending reviews are based on an analysis of the way in which expenditure operates and its impact on the population concerned.

Table 1 : Methodological analysis criteria for spending reviews

Relevance	• Is the public program consistent with political priorities?
	• Is the policy still necessary?
Effectiveness	• Do the policy program achieve the expected objectives or results?
	• Is it necessary to review the program's objectives?
Efficiency	• Is the public action carried out efficiently, or can they be performed at a lower cost without compromising results?
	• Can the program be better targeted (or generalized) to achieve the intended objectives?
Equity	• Is it conceivable to modify the balance between the beneficiary and the taxpayer?
Clarity and responsability	• Are there any duplications or redundancies, or simplifications to be made to the program?

Source: *M. Robinson, 2018. "The role of Evaluation in Spending Review." Canadian Journal of Program Evaluation 32 (3).*

On the basis of both temporal and international analysis, numerous studies have established the principles of success for spending reviews. **Seven best practices** have been identified and formalized by the OECD[2], in conjunction with the work of the IMF:

1**. the objectives and the scope of the review must be clear and formalised** in an engagement letter/mission letter, if possible, according to a planned timetable;

2. **strong, high-level political leadership** is required to oversee spending reviews, and above all to make decisions and to ensure that they are implemented;

3. the teams conducting the spending reviews must combine skills from **three profiles**: the Ministry of Finance, the administrations in charge (State, social security & local authorities) and evaluation practitioners (researchers & consultants);

4. **integration with the budgetary process** is essential to the success of spending reviews, so as to ensure continuous action, in line with the medium-term objectives of public finance trajectories;

5. **clear recommendations**, the effective implementation of which, must be the subject of a dedicated follow-up process, giving direct responsibility to the administrations concerned;

6. **full transparency for stakeholders**, in particular Parliament, in terms of both the results of spending reviews and the methods used to program, conduct and monitor them;

7. a **methodological and programmatic framework that is periodically reviewed,** in particular to take account of the changing context and priorities of public intervention.

3. The implementation of spending reviews relies on the establishment of clear governance to ensure maximum transparency

Spending reviews must be accompanied by the development of an institutional and governance framework to structure the process. The main organisational principles have been delineated both in the literature and the experience abroad. They aim to provide for the participation of (i) the "spending" ministry, (ii) a central administration such as the Ministry of Finance to conduct the review, and (iii) a coordinating and/or contributing entity to take part in a joint review. These joint reviews have the advantage of offering better access to data.

This is why a clear governance framework is necessary (as shown in figure 1) inspired from the work of the IMF.

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[2] OCDE, Spending-reviews-towards-best-practices, 2023

Figure 1: Model of governance for spending reviews
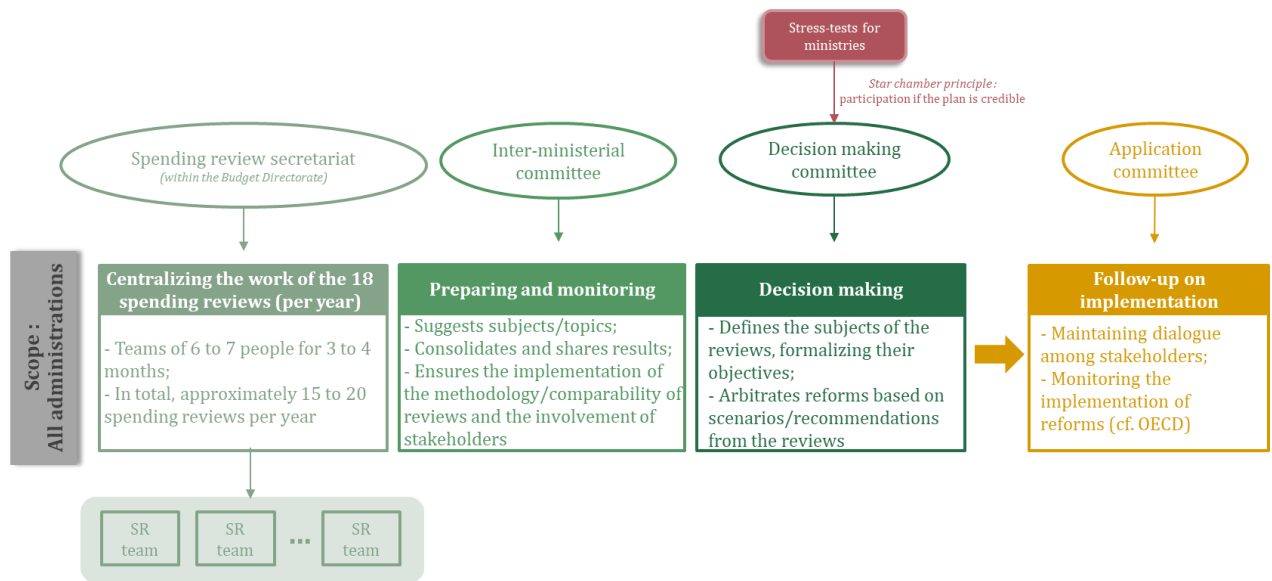
Source : Mission.

4. The choice of public policies subject to spending reviews relies on a range of indicators

The selection of "objects" for spending reviews should make it possible to draw up a list of public policy fields likely to fit particularly well into the evaluation exercise described above. The aim is to prioritise the public policies most likely to bring about a significant improvement in their quality, particularly in terms of the decision-making context and the ability of reform proposals to deliver the expected effects.

Three criteria are proposed to help identify the priorities for the forthcoming spending reviews:

- **international comparisons:** although this must be assessed with due methodological caution, a significant spending gap with our main partners is a first indicator of a public spending system whose quality is likely to be improved more significantly than others;

- **the dynamics of the financial stakes**: again, depending on the evolution of the scope and objectives of public systems, a particularly rapid increase in a policy that already shows a significant amount of public spending is a second indication that the quality of public action may need to be reviewed;

- **performance**: with the limitations of such indicators, which necessarily oversimplifies the diversity of dimensions of a public action, a sustained inability to achieve the objectives assigned to a policy, or a "drop-out" from the performance of comparable public policies of our partners, should lead us to review the corresponding object as a priority.

4.1. The choice of policies under review could be guided by the spending gap with our partners

Although international comparisons should always be treated with caution, particularly because they depend on different collective choices of socialisation of spending, risk-sharing and redistribution[3], the "spending gap" between France and its main partners amounted to 7.9 points of GDP in 2021, compared with the average for the 27-member European Union (see table 2 and graphs 1 and 2). This measure makes it possible to identify certain public policies to prioritise.

Table 2: Spending gap by major public policies in 2021, as a percentage of GDP

Fonction	UE-27	EUR zone-20	France	Gap FR / UE-27
General public services	6.0	6.1	5.8	-0.2
Defence	1.3	1.2	1.8	0.5
Public order and safety	1.7	1.7	1.7	0
Economic affairs	6.3	6.4	6.9	0.6
Environmental protection	0.8	0.9	1.0	0.2
Housing and community amenities	0.6	0.6	1.3	0.7
Health	8.0	8.2	9.2	1.2
Recreation, culture and religion	1.2	1.1	1.4	0.2
Education	4.8	4.7	5.2	0.4
Social protection	20.4	21	24.8	4.4
Total	**51.1**	**51.9**	**59**	**7.9**

Source: Mission with Eurostat data. Scope: all public administration.

Graph 1: Public spending by major public policies in France and the European Union average, in 2021, in percent of GDP
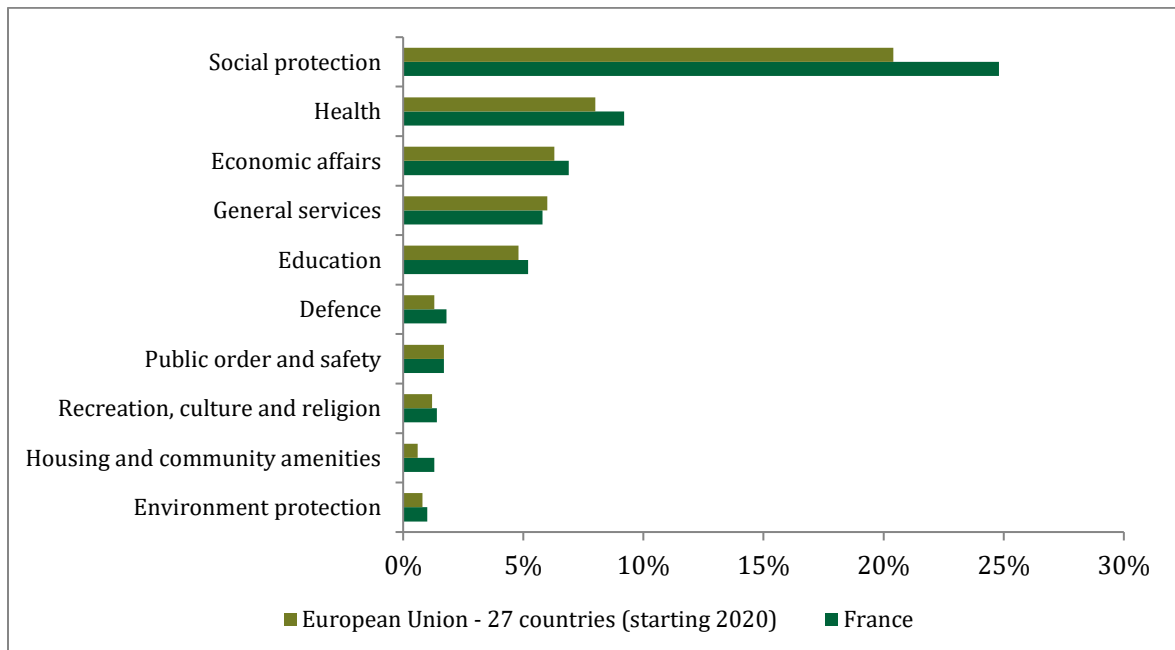
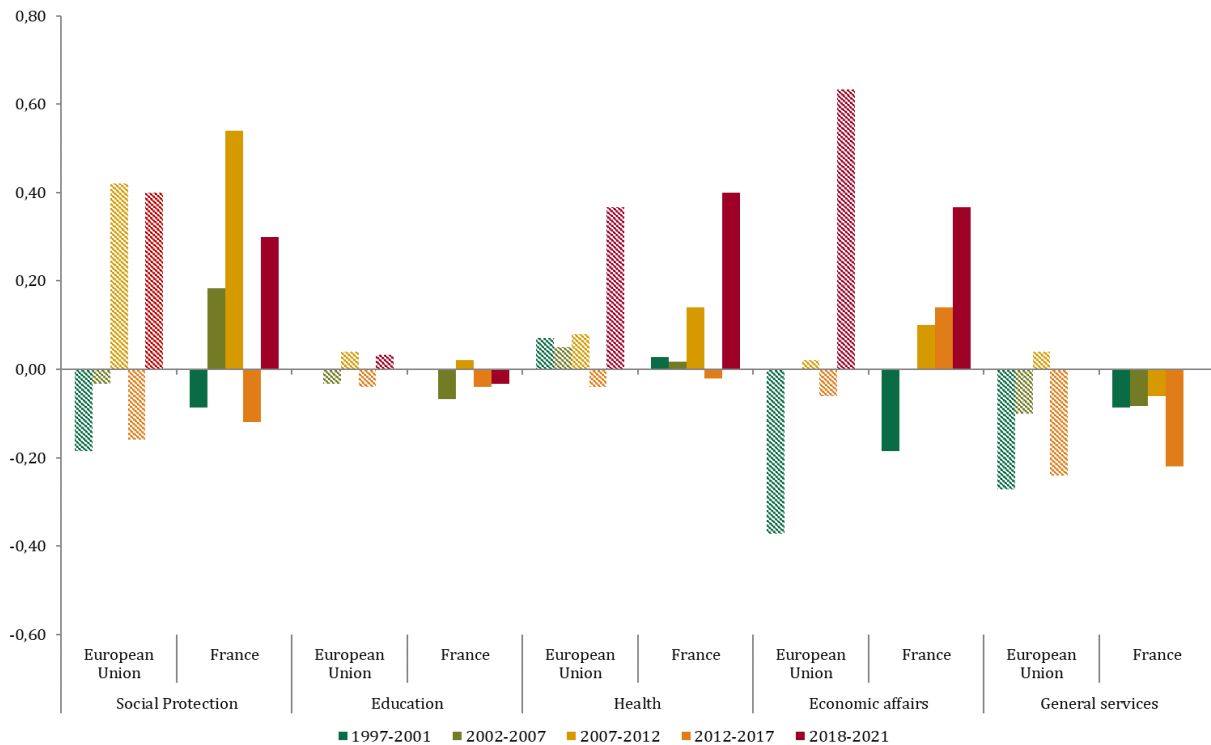*Source: Mission with Eurostat data. Scope: all public administration.*

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[3] Maya Bacache-Beauvallet, Dominique Bureau, Francesco Giavazzi and Xavier Ragot, *Quelle stratégie pour les dépenses publiques*, CAE Note no. 43, July 2017: "*In short, the high level of public spending in France can be explained in part by societal choices: significant mutualization of social risks, financing of education overwhelmingly from public funds. However, these choices are not sufficient to explain the increase in spending, which raises the question of their effectiveness in relation to the objectives assigned*."

Over the recent period (2018-2021), France's spending in the five main COFOGs has been restrained in comparison with the European Union as a whole (see graph 2). The spending is lower than average in EU countries, with the exception of healthcare spending, which increased by an average of +0.40 points of GDP in France compared with +0.37 points of GDP for the EU over the 2018-2021 period. Conversely, spending within the "Economic Affairs" COFOG increased at a more moderate pace for France over the 2018-2021 period (+0.37 points on average versus +0.63 points for the Union as a whole).

The difference in spending levels between France and the European Union can be explained in particular by a dynamic increase at the start of the period. Between 1997 and 2001, with the exception of education and health spending, France's spending per COFOG in GDP points was less restrained than that of the EU. In particular, spending within the "Economic Affairs" COFOG fell by an average of -0.19 points (versus -0.37 points for the EU), and within the "General Government Services" COFOG by -0.09 points versus -0.27 points.

Graph 2: Increase in spending on the five main COFOGs since 1995 by period between the EU and France, in GDP points, France (solid colour) and EU (striped colour).

Source: IGF's data science team with Eurostat data. Scope: all public administration.

This spending gap, distributed across all public policies and types of intervention, confirms the relevance of having a **broad field** for spending reviews.

Thus, in this international cross-sectional analysis, the main differences lead us to focus on certain types of expenditure among the broad public policy sectors:

◆ **healthcare**, and in particular primary care (+1 point of GDP compared to peers);

◆ **education**, particularly secondary education (+0.4 points of GDP);

◆ **business support** (+1 point), particularly subsidies (+0.9 points of GDP);

◆ **housing** (+0.6 points of GDP, or over 50% more than the average for countries identified by the IMF as being the most comparable to ours overall).

4.2. Public policies can also be analysed through the lens of the expense's dynamics

In addition to the first international perspective presented above, a second perspective can be provided by an **intertemporal comparison of spending**, taking into account both the weight of the policy in public spending and its evolutionary dynamics (see table 4).

Table 4 : Table of compound ratios and upward dynamics of general government functions

	2019 (B€)	Struct. 2019	CAGR[4] 95/19	CAGR 14/19	Com. Ratio 95	Comp. Ratio 14	Rank ratio 1995	Rank ratio 2014
10.2 - Old age	319.139	24 %	3.8 %	1.8 %	9.08	4.30	1er	1er
04.1 - General economic, commercial and labour affairs	45.95	3 %	5.3 %	7.0 %	1.80	2.38	2	2
07.2 - Outpatient services	70.571	5 %	3.4 %	2.8 %	1.80	1.47	3	5
07.3 - Hospital services	81.682	6 %	2.9 %	1.3 %	1.78	0.82	4	6
10.1 - Sickness and disability	70.734	5 %	3.2 %	3.7 %	1.65	1.92	5	3
07.1 - Medical products, appliances and equipment	34.01	3 %	4.6 %	1.7 %	1.17	0.44	6	10
10.5 – Unemployment	44.932	3 %	3.2 %	1.3 %	1.07	0.44	7	9
10.7 – Social exclusion	30.85	2 %	4.6 %	7.4 %	1.04	1.69	8	4
10.4 – Family and children	54.414	4 %	2.3 %	0.2 %	0.92	0.08	9	11
09.2 – Secondary education	54.726	4 %	2.1 %	1.2 %	0.85	0.49	10	8
Total	**1 349.280**	**100 %**	**3 %**	**1.9 %**	**N.D.**	**N.D.**	**N.A.**	**N.A.**

Source: INSEE, National Accounts 2020, mission calculations. The codes are COFOG level 2 codes from international nomenclatures, cf. in particular « Manuel de statistiques de finances publiques -- Annexe au Chapitre 6. Classification des fonctions des administrations publiques (imf.org). »

Reading: CAGR for compound annual growth rate over the period: either 1995/2019 or 2014/2019 (five years). The combined rate multiplies the share of expenditure in total APU expenditure ("Struct. 2019" column) and the average annual growth rate (either over 1995/2019 with CAGR 95/19, or over 2014/2019 with CAGR 14/19). These combined rates enable us to establish an orderly ranking of expenditure types, reflecting their quantitative importance and growth dynamics.

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[4] The CAGR (compound annual growth rate) measures the average annual growth rate of public spending over a given period, taking into account compound growth. The CAGR is particularly useful for assessing growth over long periods, as it takes into account annual fluctuations and provides a smoother measure of the growth rate.

In this inter-temporal cross-sectional analysis, which seeks to identify the expenses that are both the most important in terms of credits mobilised, and those whose upward trend is the most rapid, the expenses that stand out first, and this in a manner congruent with the international comparative analysis, are:

- **healthcare**, and in particular outpatient and hospital spending (ranks 3 to 6);
- **business support**, to which should be added tax expenditure (ranks 2 to 3);
- **social exclusion** (rows 4 to 8);
- **education**, particularly secondary education (rows 8 to 10).

4.3. The prioritisation of policies subject to spending reviews can also be informed by the criteria of performance

Under the "*loi organique relative aux lois de finance (LOLF)*", the budgetary procedure has been overhauled, particularly in terms of objectivising the performance of public action. Annual performance projects and annual performance reports, which are gradually being enriched by other mechanisms[5], enable us to assess the ability of our systems to achieve the objectives assigned to them:

- **while it is important to avoid a systematic**, non-contextualised approach concerning the achievement of targets (definition of the indicator, representativeness of the indicator among all the measures and systems contributing to the objective, setting of the target and its ambition) in order to benchmark the effectiveness of public policies, **the ability or inability to achieve assigned objectives is an interesting element for approaching the satisfaction of collective interests associated with a given policy;**
- the same is true of international comparisons: with all due precautions, some studies carry authoritative weight. This is the case in education, for example, with the PISA assessments carried out under the aegis of the OECD.

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[5] Like the barometer of public action results, for example the 2022 barometer. It presents the progress and results of 43 priority reforms carried out by the government, based on 57 indicators. By the end of 2022, 78% of the objectives set in 2020 had been achieved.