

**BUDGET**

**REFORM**

**Putting tax money to effective use for citizens.**

# The Austrian Federal Budget Reform

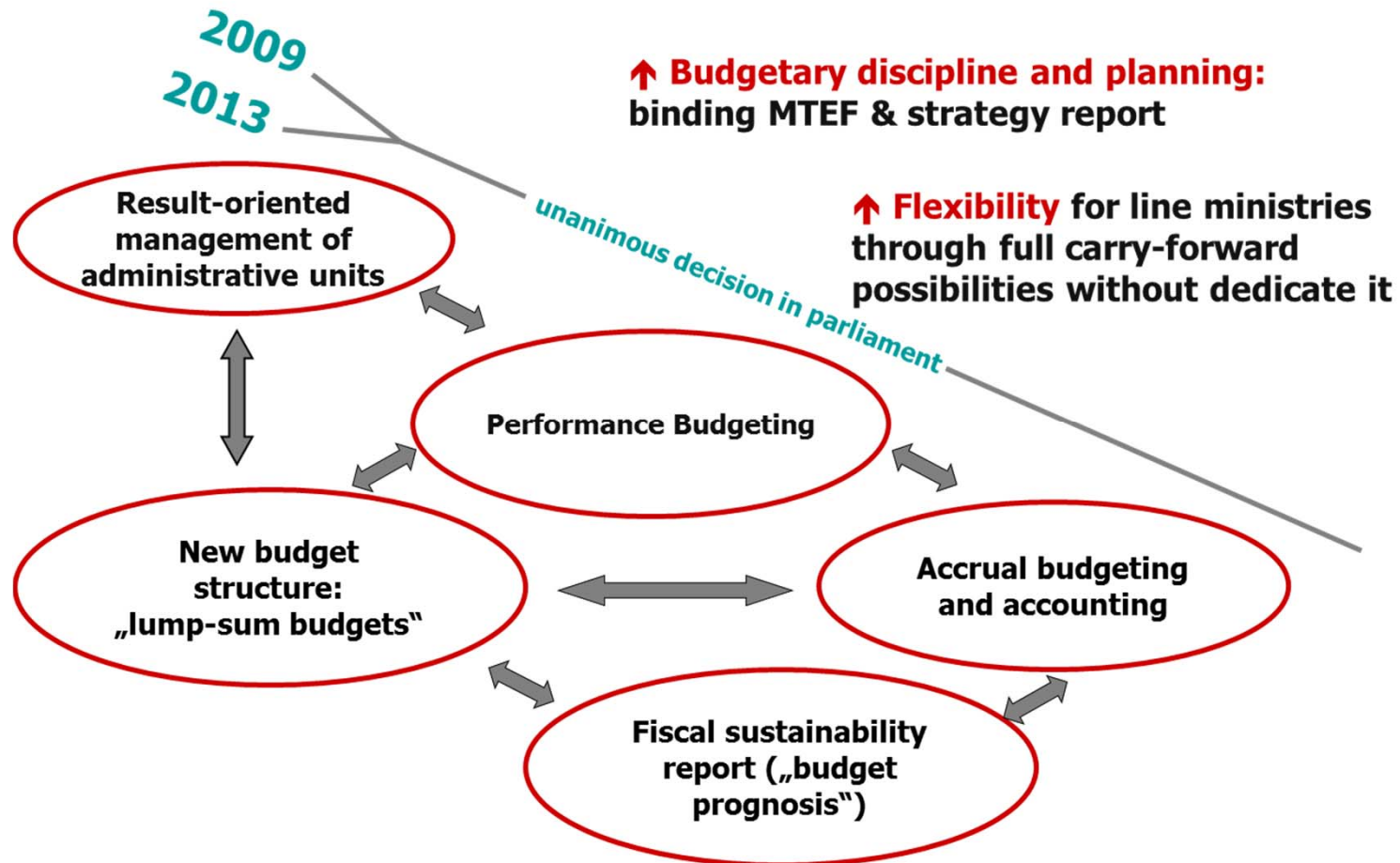
Vienna, February 2011

# Why a reform?



- **Primary motivation: Improved budgetary decision-making**
- **Addresses the following weaknesses of the traditional system:**
  - No binding medium-term perspective
  - Prevailing focus on inputs
  - Monopoly of cash-perspective
- **The budget as a comprehensive steering instrument for resources, outputs & outcomes**
- **Implementation in two stages: 2009 and 2013**
- **unanimous decisions in Parliament**

# Austrian Federal Budget Reform - Overview



new budget principles: outcome-orientation; efficiency; transparency; true and fair view

# Implementation: 2 Stages, 3 Legislative Amendments



## Amendment of ...

➤ **Constitution:**  
1<sup>st</sup> and 2<sup>nd</sup> stage:  
Objectives, Tools, Principles

➤ **Budget Law (1<sup>st</sup> stage since 2009):**  
new budget management on macro-level

➤ **New Organic Budget Law  
(2<sup>nd</sup> stage in 2013):**  
new budget management on micro-level

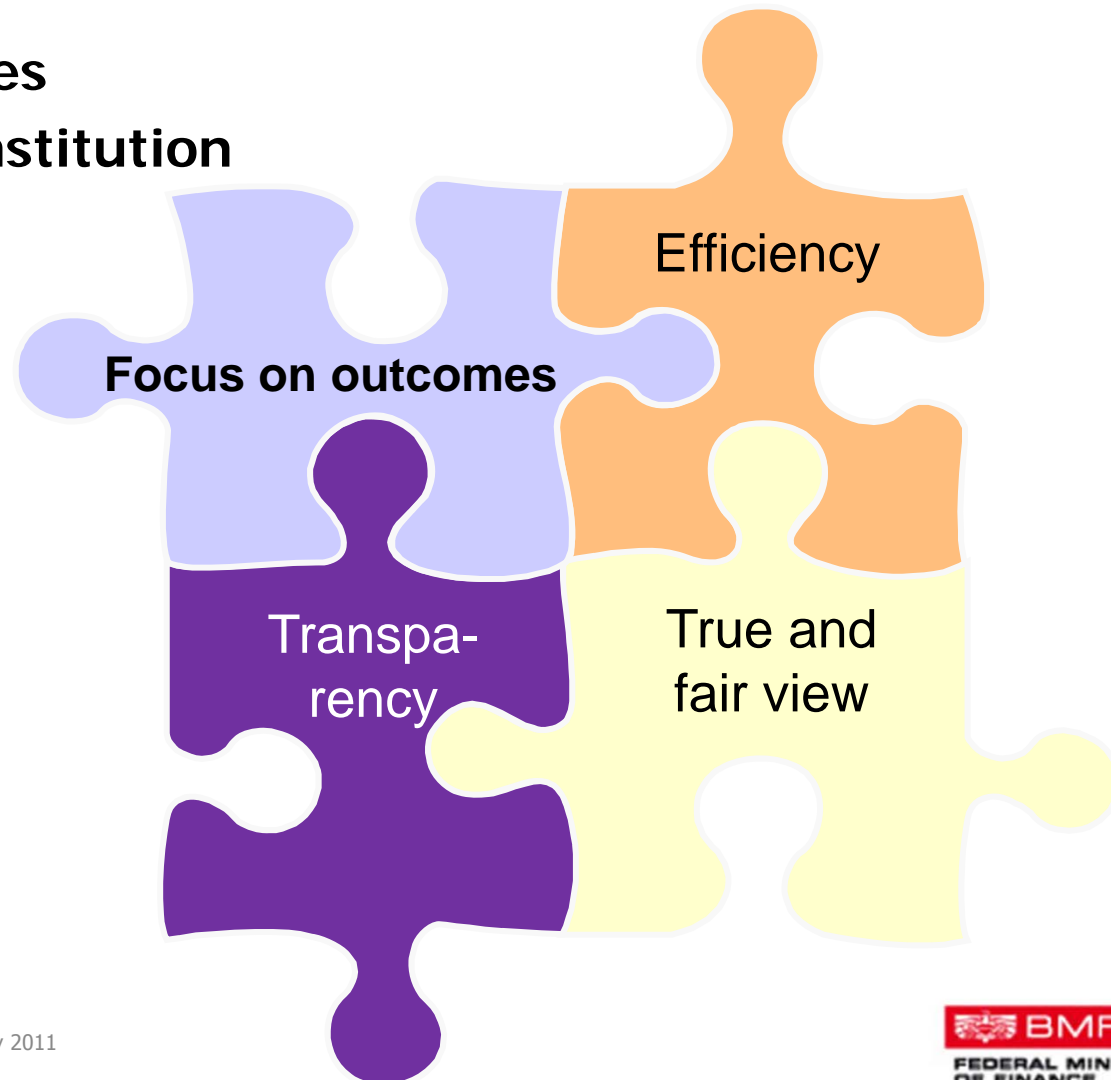
Unanimously  
adopted in  
Parliament  
in Dec. 07

Unanimously  
adopted in  
Parliament  
in Dec. 09

# Austrian Federal Budget Reform – Legal Basis



## Budgetary Principles in the Austrian Constitution



# Budget Reform: 1<sup>st</sup> Stage as of 2009



<b>System until 2009</b>	<b>Existing System since 2009</b>
<ul style="list-style-type: none"> <li>• <b>Annual budgets</b></li>   <li>• <b>Just medium term planning</b> Results: not legally binding</li>   <li>• <b>Unused funds:</b> end of year – flexibility only in exceptional cases</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Annual budgets</b></li>   <li>• <b>Medium term expenditure framework (MTEF)</b> Expenditure ceilings: legally binding Fixed: 4 years in advance</li>   <li>• <b>Unused funds - reserves:</b> full end of the year- flexibility („Each minister his/her own finance minister“)</li> </ul>

# Budget Reform: 1<sup>st</sup> Stage as of 2009



- **↑ Budgetary discipline and planning:**  
legally binding MTEF (medium-term expenditure framework)  
& strategy report

	Heading	n+1	n+2	n+3	n+4
1	General Government Affairs, Court and Security				
2	Employment, Social Services, Health and Family				
3	Education, Research, Art & Culture				
4	Economic Affairs, Infrastructure and Environment				
5	Financial Management and Interest				

- **↑ Flexibility** for line ministries through full carry-forward possibilities without earmarking

# Medium-Term Expenditure Framework (MTEF)

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- **MTEF law** sets expenditure ceilings
  - for 4 years
  - for 5 headings (headings cover several ministries) and
  - for about 30 budget chapters (ministry specific)
- **MTEF** sets ceilings for the highest permissible personnel capacity for each line ministry
- **MTEF = binding** for budget planning and execution:
  - Heading level: n+1 to n+4
  - Budget chapter level: n+1 (& n+2)
- **2 kinds of ceilings:**
  - nominally fixed: ~75% of expenditure
  - variable according to predefined indicators for expenditure areas with high exposure to economic cycle, depending on tax receipts, refunded by EU, and payments from due liabilities
- **Rolling forward planning:** n+4 is added annually



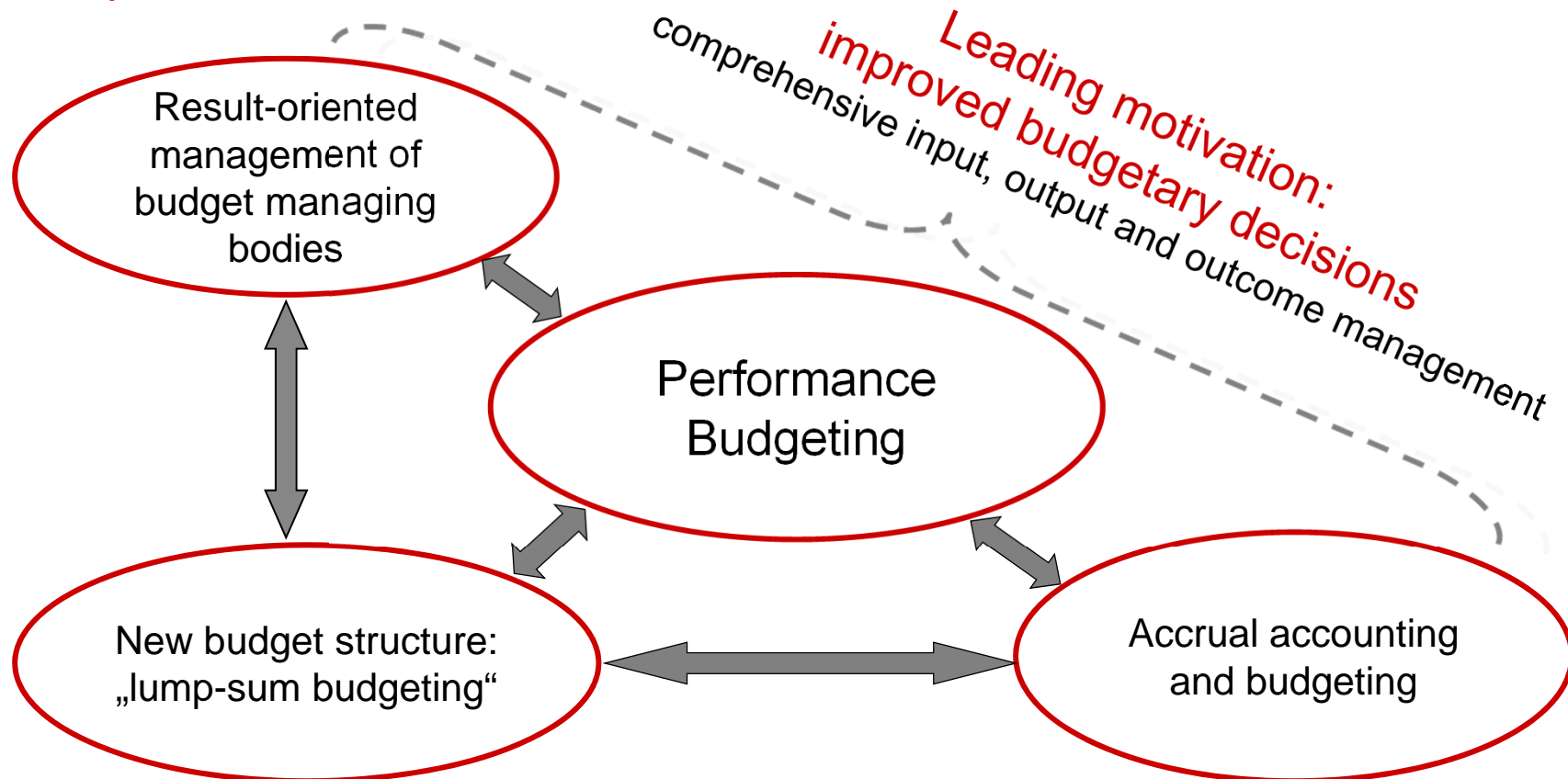
# Win-Win-Situation for Budget Discipline and Line Ministries



- **Clear commitment to medium-term fiscal discipline,**  
in exchange for
- **increased flexibility and improved medium-term planning for ministries, since:**
  - unused funds at the end of the year may be carried forward to future periods (“December-Fever” stopped)
  - same rules apply for receipts over budget during the current year
  - no earmarking of these reserves
- **MTEF: survived the stress-test during the financial crisis**

# Austrian Federal Budget Reform - 2<sup>nd</sup> Stage

## 4 key elements



# 2<sup>nd</sup> Stage of Budget Reform – Overview



<b>System until 2013</b>	<b>New system starting in 2013</b>
<ul style="list-style-type: none"><li>• <b>Accounting and budgeting:</b> cash-based</li><li>• <b>Budget structure:</b> detailed legally binding appropriations (&gt; 1000)</li><li>• <b>Input-orientation</b></li></ul>	<ul style="list-style-type: none"><li>• <b>Accounting and budgeting:</b> two binding perspectives: cash + accrual</li><li>• <b>Budget structure:</b> Legally binding global budgets (~ 70)</li><li>• <b>Performance budgeting:</b> incl. gender equality as integral part of the budget process on all levels of administration</li></ul>

## 2<sup>nd</sup> Stage of Budget Reform - Overview

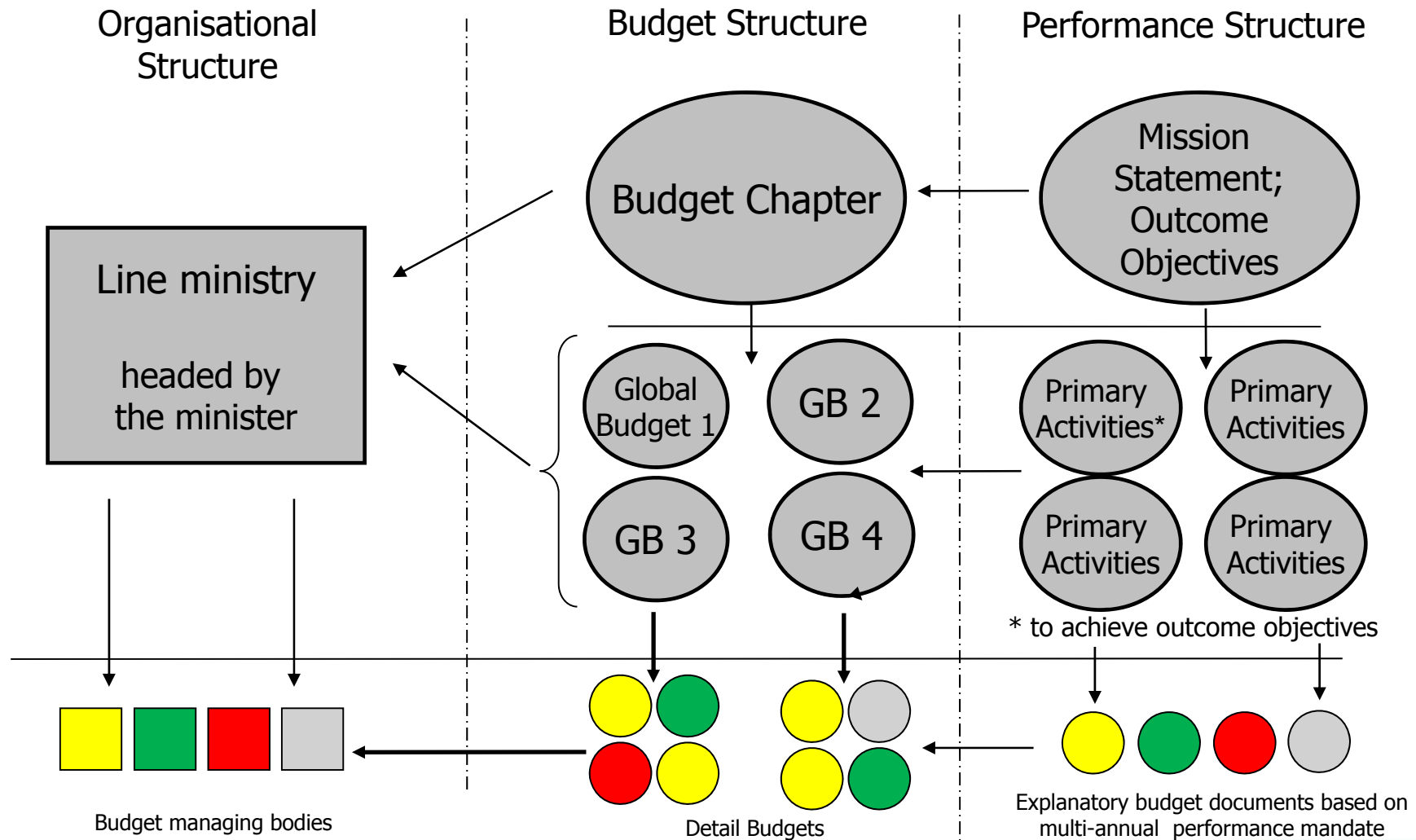


System until 2013	New system starting in 2013
<ul style="list-style-type: none"><li>• <b>budget discipline:</b> weak incentives and penalties</li><li>• <b>no long term fiscal projection</b></li></ul>	<ul style="list-style-type: none"><li>• <b>budget discipline:</b> incentives and penalties considerably strengthened</li><li>• <b>long term fiscal projection</b> ( &gt; 30 years)</li></ul>

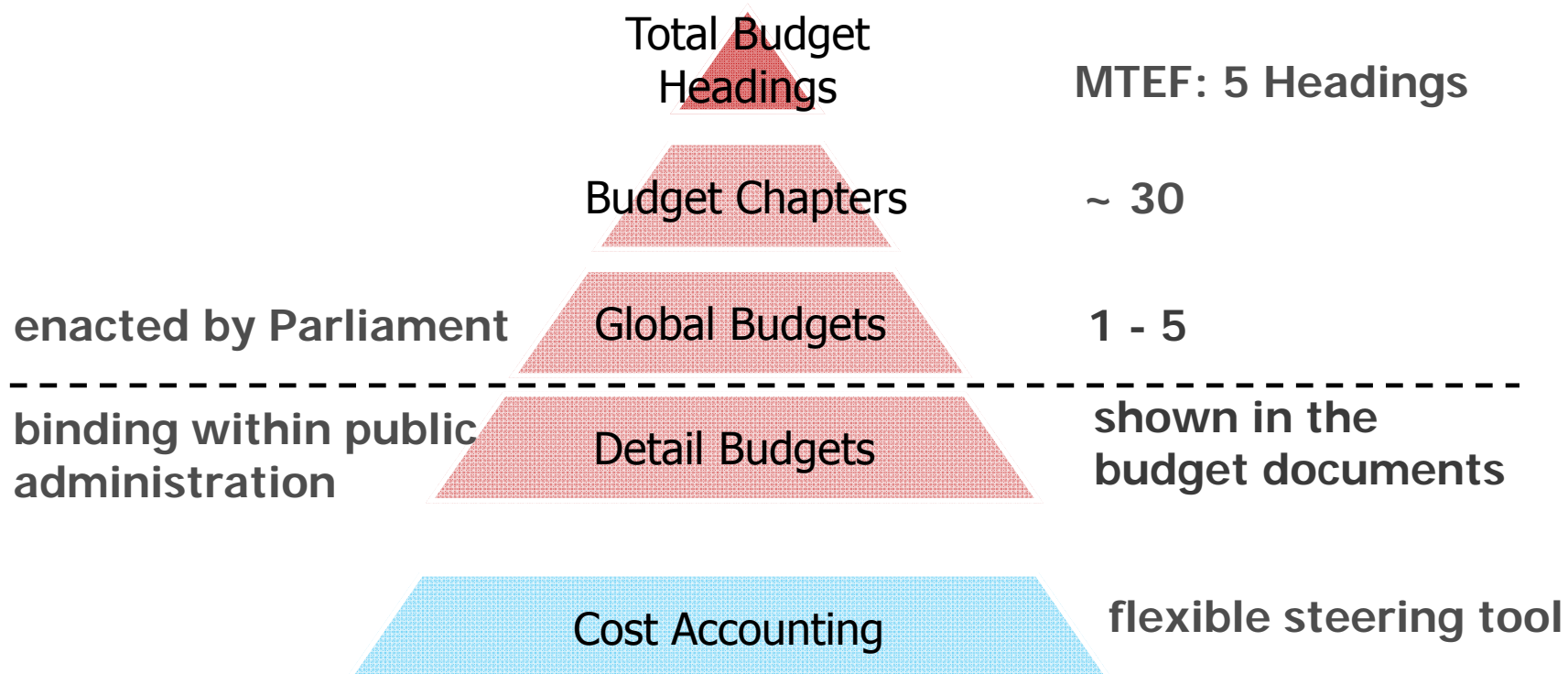
### Results:

Comprehensive reform package implying huge cultural change for administration and politics.

# 2<sup>nd</sup> Stage of Budget Reform: Integration of Organisational, Budget and Performance Management Structures

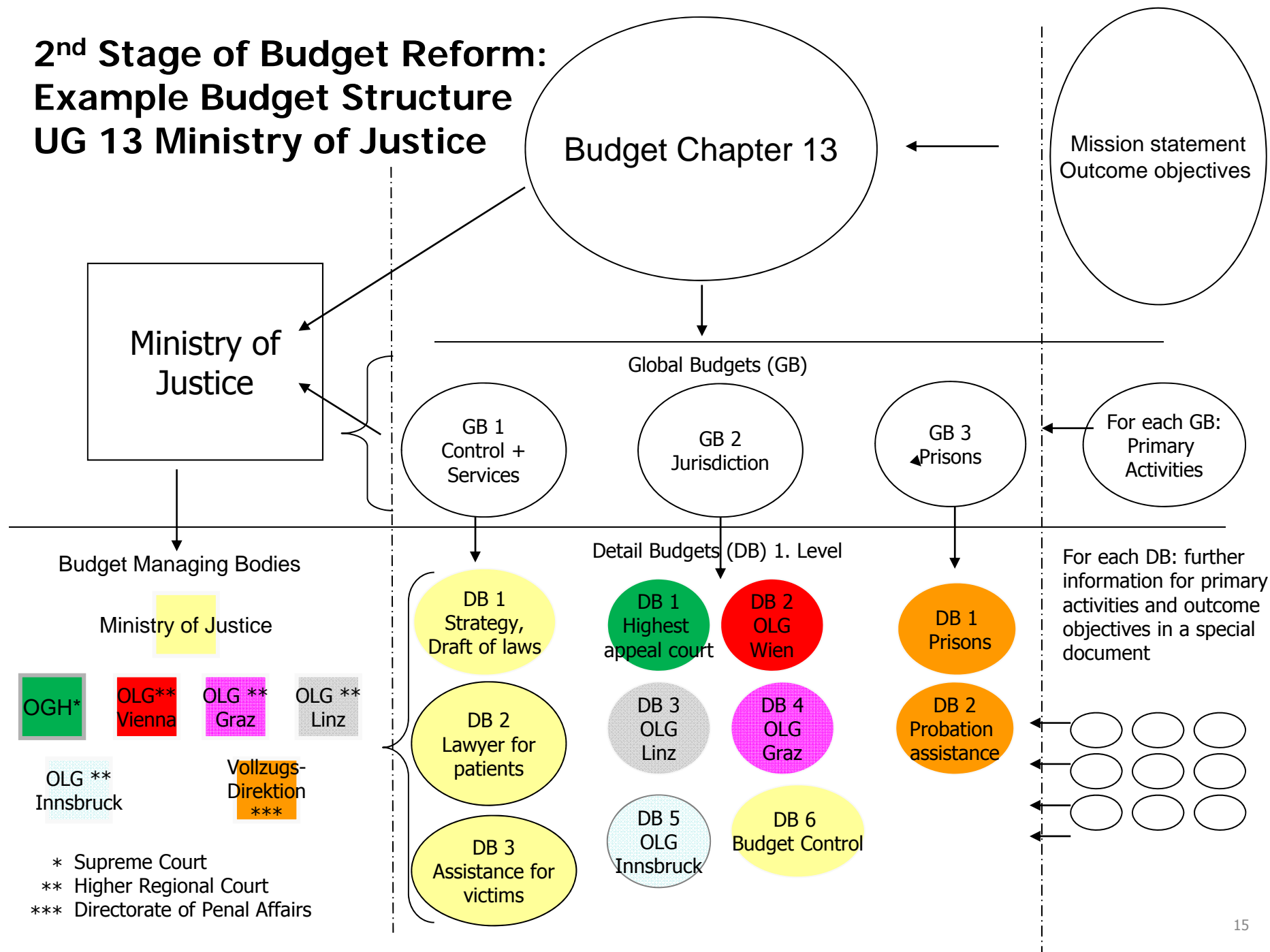


## 2<sup>nd</sup> Stage of Budget Reform: New Budget Structure

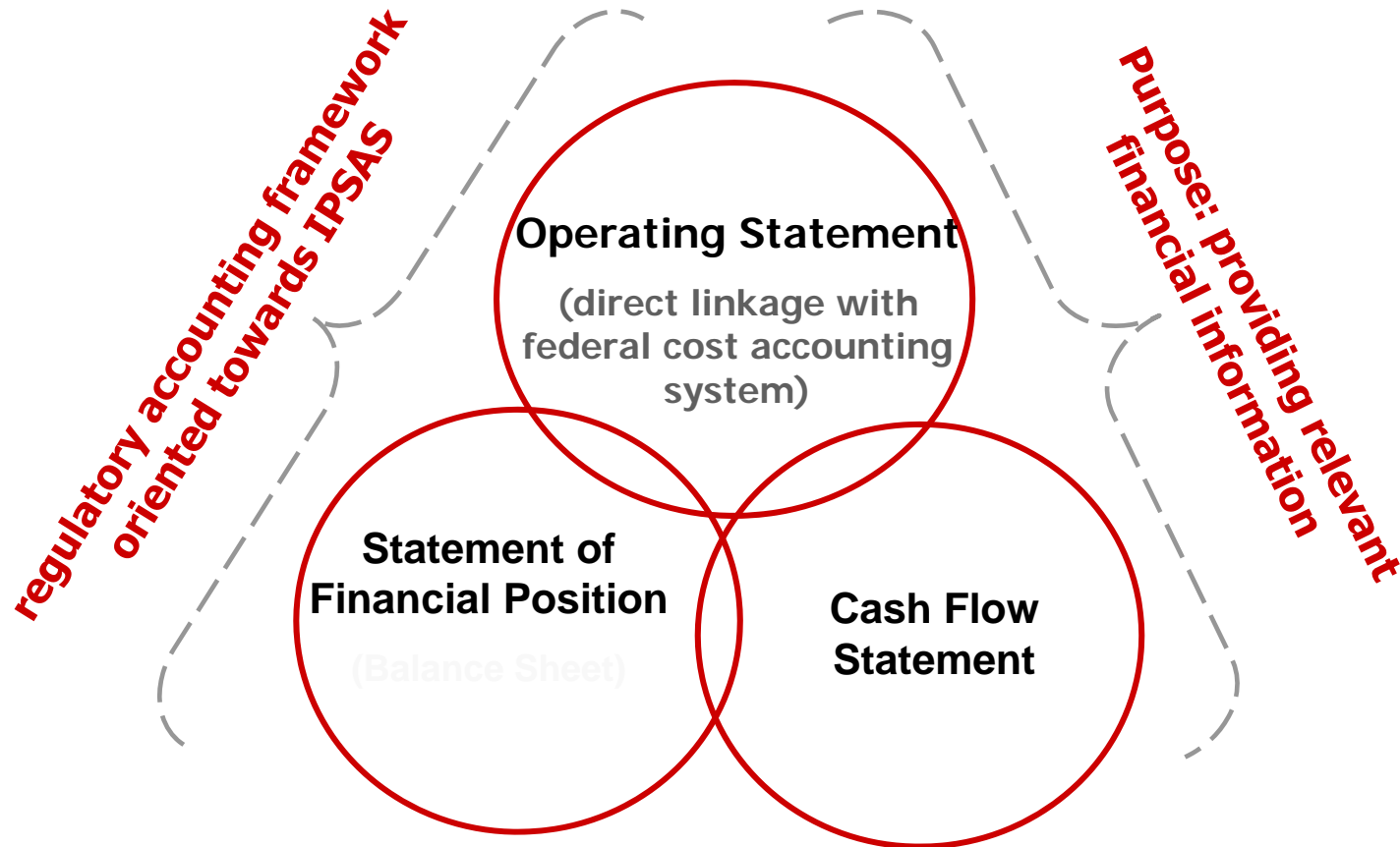


**Transparent budget structure** as a prerequisite for other reform elements

# 2<sup>nd</sup> Stage of Budget Reform: Example Budget Structure UG 13 Ministry of Justice

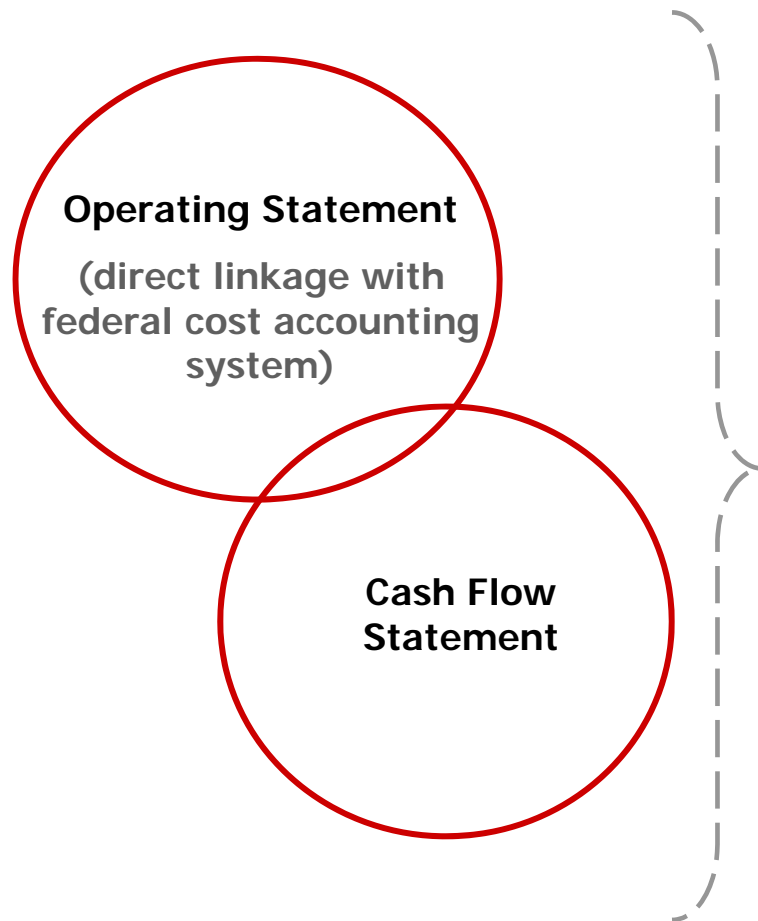


# 2nd Stage as of 2013: Accrual accounting





## 2nd Stage as of 2013: Accrual budgeting



- two perspectives: use of resources; liquidity
- limits on cash- and accrual-based numbers
- integration of non-cash items in operating budget → no cash appropriations for depreciation and provisions
- ongoing monitoring process during budget execution
- monthly liquidity management process

## 2nd Stage of Budget Reform: Aims to be achieved with Performance Budgeting

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1. Show which **outputs** and **outcomes** are to be achieved with underlying budget
  2. Facilitation of **priority setting** for politics and subsequently in the public administration
  3. Strengthened **performance accountability** for line ministries and budget managing bodies
  4. Transparent **presentation of results** achieved by the public administration for the public and the Parliament
- The budget as a **strategic policy instrument**

# Annual Budget Statement as of 2013 per Chapter 1/2

Mission Statement:

Cash Flow Statement	Ceiling MTEF	Budget n+1	Budget n	Actual n-1
Receipts				
Expenditures – fix ceiling				
Expenditures – variable ceiling				
<b>Total expenditures</b>				
Net cash balance				



Legally binding

Operating Statement	Budget n+1	Budget n	Actual n-1
Revenues			
Expenses			
Net balance			

MTEF = medium term expenditure framework

# Annual Budget Statement as of 2013 per Chapter 2/2



**Outcome objective 1:**

**Why this objective:**

**What will be done to achieve this objective:**

**What would success look like:**

- **Max. 5 outcome objectives per chapter**
- **1 outcome objective directly addressing gender equality**
- **Overall objective: Integrated view on budget and performance information**

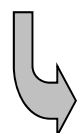
# Annual Budget Statement as of 2013 per Global Budget 1/2

Global Budget xx.01 Operating Statement	Budget n+1	Budget n	Actual n-1
Revenues from operating activities and transfers			
Revenues from financing activities			
<b>Revenues</b>			I
Personnel expenses			
Operating expenses			
Transfer expenses			
Expenses on financial activities			
<b>Expenses</b>			
<i>...variable expenses thereof</i>			
<b>Net balance</b>			

Global Budget xx.01 Cash Flow Statement	Budget n+1	Budget n	Actual n-1
Receipts from operating activities and transfers			
Receipts from investment activities			
Receipts from repayments of loans			
<b>Receipts</b>			
Personnel and operating expenditures			
Expenditures from transfers			
Expenditures from investment activities			
Expenditures from loans			
<b>Expenditures</b>			
<i>...variable expenditures thereof</i>			
<b>Net cash balance</b>			



Legally binding



Comment: On global budget level, total expenses (operating statement) and total expenditures (cash flow statement) are legally binding.

# Annual Budget Statement as of 2013 per Global Budget 2/2



Putting tax money to effective use for citizens.

Activities/Outputs (*max. five incl. gender-activity*)

Contribution to outcome objective/s no.	What will be done to achieve the outcome objectives? Activities/Outputs:	What does success look like? Milestones/Indicators for n+1	What does success look like? Milestones/Indicators for n

Comments on activities/outputs of the preceding budget statement, which are no longer listed in the present budget statement

Recent recommendation of the Court of Audit

Response of the ministry

# Gender Budgeting

- **Constitutional budgetary principle** as of 2013:  
Outcome orientation including **gender budgeting**
  
- **Integrated approach:** Gender dimension is considered **on all budget management levels** such as strategy report (medium term), budget chapters, global budgets etc.
  
- Does not mean to allocate separate budgets for men & women
  
- **Implementation of gender mainstreaming in budgeting:**
  - Requires gender analysis
  - Definition of objectives  
(external/societal versus internal/ministry specific)
  - Formulation of activities in order to achieve the objectives
  - Monitoring

# Impact-Oriented Budget Management – Definition of Roles



- **Line Minister:** responsible for performance budgeting & performance controlling on ministry level
- **Head of agency/budget managing body:** responsible for budget management of their “detail budgets”, implementation of measures to achieve performance objectives
- **Ministry of Finance:** defines the framework for impact-oriented budget management & performance budgeting
- **Federal Chancellery:** responsible for performance controlling on federal level
- **Court of Audit:** responsible for annual financial statements, audits, advisory role to the government. New: recommendations from recent audits on global budget level



# 2nd stage as of 2013: Performance Budgeting

	<b>Financial Management</b>	Steering instruments/ parameters	<b>Performance Management</b>
<b>Medium-term: Macro level</b>	<b>MTEF</b> Expenditure ceilings for four years on a rolling basis	<b>Total Budget:</b>  Medium-term fiscal policy strategy	<b>Strategy Report</b>  Commentates MTEF
<b>Annually: Meso level</b>	<b>Annual Budget Statement</b>  with Operating & Cash Flow Statement	<b>Per budget chapter:</b> Mission statement, max. 5 outcome objectives  <b>Per global budget:</b> max. 5 primary activities	<b>Annual Budget Statement</b>  with Performance Information
<b>Annually: Micro level</b>	<b>Detailed financial planning</b>  explanatory budget documents	<b>Per detail budget:</b> Practical implementation by means of multi-annual resource and performance plans (rpp) on a rolling basis	<b>explanatory budget documents based on rpp</b>

# Steering administrative units according to results



- Units receive global envelopes plus intended results and are responsible for achieving those results
- Each unit receives a 4 year plan on a rolling basis that integrates resources and results
- Incentives: unused funds are carried forward within the relevant unit; premiums for civil servants, if financial and performance goals are reached
- Sanctions: if violations of budget regulations occur, Ministry of Finance can deduct the respective sum from the ministry's envelope; line ministry is forced to accord projects with the Ministry of Finance on a reduced financial level

# Strategic approach in reform development and implementation

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- **Intensive study of other countries' reform experience:** Learning about do's and don't's, intercultural aspect to be considered
- **Making the reform process irreversible:** Key elements in constitutional amendments, detailed legislation at a later stage
- **Reform design and implementation through own staff:** Keeping external consultancies to a minimum, building and strengthening internal know-how
- **Pragmatic reform design:** Reducing complexity, less is more, no 100% perfectionist approach
- **Ensuring a pilot phase** for sufficient testing

## The Austrian Federal Budget Reform

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- is a comprehensive reform addressing the whole system and not only specific elements
- is more than a mere change of managerial, budget and accounting rules
- involves **cultural change** within the administration as well as on the political level (setting priorities, defining measurable objectives, transparent decision-making, etc.)

# Thank you for your attention!

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