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Budgetary Reform in Austria:
*Towards tighter coupling
within the financial and
management system*

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Abstract

The Austrian federal administration has proven its capacity for innovation whereby some reforms were accomplished for the whole sector of the Austrian federal administration (cost accounting, pension reform of civil servants), others were only concentrated on specific sectors or organisations (corporatisation, outsourcing, benchmarking, performance measurement, quality management, etc.). As a consequence reform initiatives were not always linked to each other. All in all, the Austrian Federal Chancellery as the main reform coordinating body, registered the implementation of about 130 reform projects from the year 2000 to 2006¹.

Nowadays, the budget is expected to offer not only a true and fair view of the government's financial situation, but also to integrate budgetary, personnel, performance and strategic management. Based on the decoupled structures identified above, the budget reform has to address the following deficiencies:

1. Primarily input-orientation
2. No genuine medium-term financial management framework
3. Control monopoly of classical cameralistics
4. Centralised und itemised approach of management of state bodies as a consequence of traditional hierarchical organisational structures with weak accountability and a lack of autonomy.

The Austrian Federal Budget Reform is based on an amendment of the constitution which was unanimously adopted in Parliament in December 2007. Since the reform is quite large in scale, key elements are going to be implemented in two stages. The **first stage** is going to take effect **in 2009** with the introduction of a legally binding **4-year medium-term expenditure framework (MTEF)** including an explanatory strategy report. The second stage of the budget reform consists of:

1. A new budget structure (global budgeting instead of line item budgeting)
2. Results-oriented management of state bodies
3. Accrual accounting and budgeting
4. Performance Budgeting

The core aim is to integrate these elements into a consistent framework leading to improved budgetary decision-making. Integration is a complex process, therefore it is worth analysing the linkages between the elements whereby linking does not always mean full integration since the system has to be designed in a way that it is viable in practice and bureaucratic overkill is avoided.

¹ See Federal Chancellery (2007).

1. Introduction

“Undoubtedly, NPM-features have found their way into Austrian public administration, but this development has been selective. Whereas market-type reforms are strikingly absent, with management instruments and customer orientation, consensual elements – with ‘interpretative viability’ to the traditional public sector logic – are being adopted. Being aware that the transition of an archetype is a ‘long-term’ project [...] and that it might be too early to draw conclusions since we might stand only at the beginning of such a transformation, and with all the limitations inherent in our data and the methodology, we conclude that our findings do not support the assumption that an archetype change in the Austrian public sector has taken place so far.”².

The same is true for financial management. The budget law underwent several minor amendments during the last years, in addition a major change in its practical application was effected in 1996 with the introduction of a top-down budgeting process and the possibility of biannual budget planning. Nevertheless a general reform had not been implemented until December 2007, since Pollitt/Bouckaert (2004) point out that “it is the exception rather than the rule for reform schemes to be comprehensive, even in intent”³.

The current Austrian federal budget reform is considered to be one of the most encompassing public sector reforms in the last decades using an integrative and comprehensive approach. *“In contrast to past reforms which sought to change budgeting without regard to public management, recent innovations have been grounded on the presumption that budgeting is a subset of management and cannot be reshaped in isolation from other processes to which it is linked.”*⁴ The aim of this paper is

- firstly all to develop a better insight into the links within the current budget and accounting system in Austria;
- secondly to draw conclusions for potential benefit through improved linkages between the elements of the management systems,
- and thirdly to describe and analyse the various elements of the current budget reform from a practice-based “linking perspective”.

Before describing the Austrian budget and accounting system, Chapter 2 provides an analytical classifica-

tion of links that can be created within a management system. It serves as a framework for the analysis thereafter.

Chapter 3 describes the characteristics of the current Austrian financial management system in more detail and furthermore, reveals and explains the room as well as the potential benefit of a tighter coupling of elements and structures within the financial management system.

Chapter 4 deals with the Austrian federal budget reform whereby the first section briefly describes the reform and its elements, the second section concentrates on the potential for tighter coupling of structures and instruments within the new budgetary framework. Finally, conclusions for the conception and implementation phase are drawn.

² Hammerschmid/Meyer (2006), p. 730.

³ Pollitt/Bouckaert (2004), p. 26.

⁴ Schick (2002), p. 36.

2. Linkages within the budget system

As already mentioned, the budget reform envisages a stronger link between the different management practices and a stronger integration of financial management with performance management. Bals (2004) emphasises the importance of the integration of the different elements of a management system into a coherent steering model, both to generate better management and to avoid duplication and redundancies.

Organisation theory, however, is aware of the phenomenon of decoupling of structures and action⁵ or loosely coupling which leads to a disintegration. The way how practices and elements of management systems are linked is of special interest in the conception of a management system. The budget and accounting system consists of many elements and instruments. These are linked in different ways in practice. We present a concept of links which can serve as a heuristic tool to develop a deeper insight into how the elements of the financial system are integrated or disintegrated and how links between practices can be established.

Conceptual links describe the general, abstract and intellectual connections between different practices and instruments. They describe how different instruments are linked in the accounting and budget model which is manifested in law.

These abstract links have to be translated into concrete practices including organisational arrangements such as the creation of organisational actors, units and practical instructions enabling the realisation of the conceptual level. Different practices within the financial management system, such as budgeting practices, accounting procedures, controlling mechanisms, demand adequate organisational arrangements. For an integration of such different practices, **organisational links** have to be considered.

Technical links refer to links between different tools and links between these tools with human actors. Management information systems, such as budgets management or cost accounting, need a technical infrastructure. In order to integrate the different management information tools which often cause redundancies in data structures, technical links - based on preceding conceptual links - have to be established.

Links in practice are neither intellectual nor abstract, but concrete and action-related. Whereas conceptual, technical or organisational links can be directly managed and serve as a prerequisite for a practical implementation, links in practice directly arise from

interaction. They describe concrete linking phenomena such as how financial aspects are translated into the arena of political and/or strategic decision making or organisation activities. The link between practices of accounting and budgeting with other practices can be closer or weaker. A weak link is established if accounting and budgeting practice is the operational activity after strategic decisions were decided (ex-post involvement). A close link is attained if the accounting and budget dimension is integrately discussed and enters the scope of decision making (ex-ante involvement).

In concrete interaction, practices are linked in a complex, interrelated and varied web of interaction structures and relationships between actors. Such linking activities lie far beyond the discretion of the budget law and depend on concrete interaction configurations. This phenomenon should be kept in mind as it cannot be managed directly .

⁵ See Meyer/Rowan (1983); Walgenbach (2000).

3. Budgeting and accounting practices in Austria until 2008

Organisation theory points out the phenomenon of path-dependency in organisational practices. „The present is rooted in the past; no organisation (and no person) is free to act as if the situation were *de novo* and the world is a set of discrete opportunities ready to be seized at will”.⁶ The outcome of reform processes depends on the environments during the reform process⁷, but also on past environments so that reforms can only be understood in the context of the models in practice that have to be reformed and the practices evolved around them.

Due to this strong path-dependency, understanding reform activities, thus, requires considering the complexity of established practices, involved actors, local and historical circumstances as well as the technical surroundings. Therefore, this chapter describes the main characteristics of the current Austrian financial management system and analyses the links between the elements in practice.

3.1. Budget management

In order to understand the necessity and significance of the current federal budget reform, it is useful to know the characteristics and the evolution of the Austrian public sector from the end of the 1980ies. By that time, the Austrian federal public sector was comparatively large without separate subsidiary organisations. The public administration consisted of large, vertically-integrated, and centrally managed ministries. On this basis, budget formulation followed a highly legalistic and input-oriented regime.⁸ By the same token, human resource management was very inflexible with tight input controls, and life-time employment without possibilities to lay-off staff.

Due to the very bureaucratic organisational structure, the management system did not leave much space for performance orientation. Quite on the contrary, public management was very much focussed on inputs and processes instead of outputs and outcomes.

Directives were seen as the principle governance mechanism. In addition, strong hierarchical structures together with a high degree of horizontal and vertical division of labour contributed to a focus on compliance instead of performance.

In the meantime, the Austrian federal administration has proven its capacity for reforms and innovation whereby some reforms were accomplished for the whole sector of the Austrian federal administration (cost accounting, pension reform of civil servants), others were only concentrated on specific sectors or organisations (corporatisation, outsourcing, benchmarking, performance measurement, quality management, etc.). In total, about 130 public management reform projects were registered from the year 2000 to 2006.⁹

Austria is a decentralised federal country with nine states and local governments within each state. In addition, the general government sector comprises a number of other legal entities fulfilling certain delegated government functions, e.g. the social security funds, the chambers, a number of federal and regional funds as well as hived off agencies.¹⁰ Each state has its own constitution, parliament, government and administration. Each level of administration is autonomous and independent. The budget reform discussed in this paper is implemented on the federal level which is responsible for roughly 60% of the general government sector's expenditures.

The core pillars of the budget process and management on the federal level in Austria are:

- A non-binding budgetary programme based on the coalition agreement for the whole legislative period.
- A standard budget planning process with top down budgeting between the Ministry of Finance and line ministries
- Budget execution including monthly controlling and risk management
- A trend to biannual budget planning as a substitute for a MTEF
- Manpower controls with a division of competences between the Ministry of Finance (budget) and the Federal Chancellery (personnel)

⁶ Perrow (1986) p. 158.

⁷ see March/Olsen (1994) p. 260f., Scott (1995b) p. 65.

⁸ Csoka (1998).

⁹ See Federal Chancellery (2007).

¹⁰ The hiving off or corporatisation wave is described further down in this section. In total, about 100 such hived off agencies have been created such as the federal universities, federal museums, federal railways, federal real estate agency, Austrian Statistical Office, National debt management agency etc.

- Corporatisation and outsourcing as a means for increased managerial freedom
- Flexi agencies – a pilot project as a testing field for further reforms¹¹

When a new government is appointed, major policy objectives are announced in a document known as the **coalition agreement**. On the basis of the coalition agreement, the government is obliged by the Federal Budget Law to present within its first six months in office a **budgetary programme** to Parliament for the whole duration of its term of office. In this programme explicit deficits targets are set for each year. However, the budgetary programme does not define limits for expenditures. Only numerical targets for savings from specific reforms or the amount of funding of selected initiatives are mentioned. In addition, the statements made in the budgetary programme are not binding, they rather serve as a basis for the annual budget negotiations. Due to a very loose coupling of annual budgets with the budgetary programme, the latter document does not serve as a MTEF (medium-term expenditure framework).

In 1996 a **top-down budgeting procedure** was introduced, which can be regarded as a major success factor during that decade in curbing excessive budget deficits and improved budgetary planning.¹² A detailed budget forecast is prepared every year by the Ministry of Finance, consolidation targets and measures are proposed and then decided at the political level. The whole process is geared to the global budgetary targets. The Minister of Finance announces the budgetary targets consistent with the fiscal targets set in the budgetary programme of the federal government. The Minister of Finance submits the directives for the budget to the spending Ministers. The key budgetary data include global personnel and operating expenditure, revenues and the maximum budgetary balance. Ministries are allowed to set their own priorities and internal distribution within their granted global amounts. Budgetary resources are allocated to the Ministries according to political priorities, which in turn determine the allocations to and among their agencies. The Minister of Finance prepares the draft budget, which is then presented to Parliament for discussion and adoption.¹³

Another important budget management instrument was introduced in 2000: the **controlling system** comprising management of budget and staff. The Ministry of Finance gathers data from all ministries and prepares monthly controlling reports. The aim is to

identify risks for possible deviance from budgetary targets on time and to develop counter-strategies.

Concerning the **execution of budget appropriations**, the budget is divided in about 30 budget chapters. Each chapter is further divided in appropriation line items following an organisational and financial management logic. There is a distinction of mandatory expenditure specified by law and discretionary expenditure. Reallocations and the carrying-forward of appropriations at the end of the year are only possible to a limited extent.

During the last decade there certainly was a move from tight input controls exercised by the Ministry of Finance vis-à-vis line ministries towards a more relaxed system as far as budgetary targets are met. However, since the legal framework was not amended, these changes had to be embedded within the current regulations, thus, making the budget execution process increasingly intransparent. In addition, the budget structure with about 1,200 line items is inadequate since only about 10% of line items contain about 80% of total expenditure.¹⁴

During the last decade, the Austrian government has moved to negotiating and deciding upon the budgets of two years at once (**biannual budget planning**) although still enacted into law on an annual basis as required by the constitution. The reason is a pragmatic one: It is easier to tackle important reforms and major reallocations if funding conditions are defined for a longer than just the upcoming annual period. This practice evolved in the absence of a genuine medium-term expenditure framework as a substitute. With this approach, practical links are established in the planning process of subsequent annual budgets, however, an underlying conceptual link in the budgetary law is missing.

Despite a downsizing of the Austrian public sector through privatisation efforts¹⁵, organisational reforms with implications on the federal financial management came rather late. In the early 1990's, the Austrian government started with a huge wave of **corporatisations**, i.e. hiving off discrete parts of ministries into separate legal entities and thereby allowing for autonomous financial and personnel management. About 100 such companies have been created.

The aim was among others to increase efficiency and effectiveness in the provision of public services. As soon as these agencies were no longer part of their ministries, managers enjoyed far greater autonomy in budget and personnel management. Experience

¹¹ See Promberger/Greil/Simon (2005).

¹² On top-down budgeting in Austria see Fleischmann (2001), pp 151-161.

¹³ For a more detailed description including the role of Parliament see the OECD report on budgeting in Austria by Blöndal/Bergvall (2007).

¹⁴ See Csoka (1998).

¹⁵ For further information on privatisation in Austria see Aiginger (1999).

with these hived-off agencies is mixed. Besides some very successful examples such as the Austrian Federal Forests and the Zoo of Schönbrunn, others attained limited efficiency and effectiveness gains due to conflicting positions and tensions between political ownership and strategic management on the one side, and private-market dynamics and operational management on the other side. The corporatisation wave can be regarded as an *outside*-government solution for greater managerial autonomy without changing the rigid legal framework for budget and personnel management.

In the year 2000 another initiative was launched, this time however *within* government: The so called flexi-agencies¹⁶ were introduced as quasi-autonomous bodies in financial respect within ministries. These flexi-agencies were meant to serve as pilot projects and testing field for future reforms. Rather than hiving off, these entities remain within the ministry. A three years' contract is negotiated on a case-by-case basis where each flexi-agency is granted appropriations on a multi-year basis and enjoying greater flexibility in budget management. So far 18 agencies out of 8 ministries have been created. Results so far show improvements in financial performance and a cultural change within the agencies mobilising managers' and employees' creative potential. A conceptual link between financial and performance management was established. Flexi-agencies were realised within the existing accounting system so that in a technical respect, a strong link to the existing accounting and budgetary framework was created.

The striking characteristic of **human resource management (HR)** on the Austrian federal level is the division of competences between the Ministry of Finance and the Federal Chancellery: Although the overall budget authority lies with the Ministry of Finance, the Federal Chancellery is the supreme decision-making body for HR management. The personnel management system itself is rather rigid and complex with detailed salary scales that are uniform within employment regimes, however, including various types of special allowances. Detailed staff limits within each ministry and each grade of staff are set in the *Stellenplan*. The *Stellenplan* is approved by parliament together with the budget. Although the *Stellenplan* is formally integrated into the budget documents, linkages between the two systems are loose. This becomes particularly evident by studying the organisational charts of federal ministries where budget and personnel is mostly performed by different units sometimes even placed in different general directorates.

Summarizingly, human resource management follows a different logic than budget management.

3.2. Accounting practices

The Austrian accounting system consists of three main systems: cash accounting - which is the basis for budgeting and budget management, accrual accounting and cost accounting. The systems are conceptually only loosely coupled as each system is meant to fulfil its specific - although in practice rather unclear - objectives. Nevertheless, most entries are recorded only once and are processed according to the respective system-specific rules. Technical links were created through the implementation of the SAP-system. Some entries into the book keeping systems, however, are only processed in one of the systems and neglected in others. This practice leads to rather difficult or complicated transition procedures of accounts between the systems.

Cash accounting is also the main element within the annual report where a budget-actual-comparison is displayed in detail and has to be commented by the line ministries and the agencies. Beside the results of cash accounting, high aggregate information of accrual accounting is displayed in the report. A balance sheet and an income statement show in a t-account form assets and liabilities as well as expenses and revenues. In comparison to the budget formulation and negotiations, the report plays a subordinated role.

Formally, accrual accounting disposes of all the necessary elements but in practice it is beyond administrative or political influence mainly because management only focuses on the financial and not on a resource-based perspective. This is particularly due to a lack of appropriate and distinct valuation rules. Assets are not fully recorded and no systematic stock-taking is considered:¹⁷ a large number of real estates as well as cultural goods are not considered, depreciation is simplified by depreciating 50 percent by purchase and 50 percent by rejection, provisions, especially for civil servants, are neither recognised nor disclosed. although a position is foreseen within the statement¹⁸.

It is not surprising that asset accounting is not a core practice of accounting. Although conceptually linked to accrual accounting, technically a disintegration of cash accounting and accrual accounting is the practice so that in both systems separate entries are necessarily leading to adjustment problems.

¹⁶ See Promberger/Greil/Simon (2005).

¹⁷ Schauer (2006) p. 9.

¹⁸ Schauer (2008), p. 1.

Different communities are in charge of the different accounting systems. Cash accounting is dominated by the ministry of Finance, line ministries and agencies. Accrual accounting, execution of payments and record control is primarily delegated to the federal accounting agency. Accrual accounting has evolved to a compulsory act without any effect on the management of the administration as well as the political system and is beyond the interest of ministries and agencies. Due to the above mentioned deficiencies, the statements meanwhile can only serve limited information purposes. Nevertheless, increased importance of accrual accounting information would arise from corporatisation activities in order to secure the principles of completeness and true and fair view of the state's accounts.¹⁹

The budget law 1986 considered a cost accounting system which had not been fully put into operation until 2000. In 2000, the new national government decided to implement a cost accounting system in the whole federal public sector. By that time, only a few ministries and selected agencies had already implemented a cost accounting system. These existing systems, however, had been tailored to specific needs of the respective organisation and were therefore characterised by a high diversity. After a conception phase of three years, the federal ministries had to implement the unified system in 2005. The objectives of the system were highly ambitious. The cost accounting system has the following characteristics:

- standard model of calculation
- compulsory technical framework in SAP
- no direct conceptual link between budget structure and cost structure
- full cost system with a strong focus on calculation of full costs of "products"
- therefore diverging sums in cash accounting, accrual accounting and resource-based cost accounting with difficulties in transforming from one system into the other
- high complexity of the system
- no link between the accrual accounting system and the cost accounting system

The cost accounting system fulfils the state-of-the-art conception of full cost accounting. Nevertheless, cost accounting has not yet developed to a core practice which is closely linked to management decisions or used for steering activities. This is mostly due to the fact that cost accounting is only partly linked with the dominant system of budgeting and rather decoupled from the accrual accounting system. Due to complex

allocation mechanisms, it is difficult to reconcile the two systems. Although the cost accounting system is a pool of additional and performance information, it has not yet become an integrative management instrument with steering functionality.

3.3. Conclusions

Despite several successful amendments and reforms of the budget management and accounting system over the years, there is a significant potential for further improvement. Particularly in the field of budget management, the evolved decoupling within the financial and management system still prevails. The following deficiencies of the current system can be identified:

- The link of strategic policy making with performance and budget management is loose on all levels.
- The momentum for budget discipline as well as a focus on medium-term policy objectives is not directly addressed by the current budgetary framework.²⁰
- Accrual and cost accounting information is used very little in a strongly incremental budgetary planning environment.
- State bodies subordinated to central ministries are not provided with a (legal) framework allowing for (performance) accountability and autonomous operational management including budget and personnel.
- Budget and personnel management on all levels (total budget, budget chapter level, within ministries) is decoupled and therefore performed by different actors, following a different logic, sometimes even in a competing position.

Nowadays, the budget is expected to offer not only a true and fair view of the government's financial situation, but also to integrate budgetary, personnel, performance and strategic management. Based on the decoupled structures identified above, the budget reform has to address the following deficiencies:

1. Input-orientation
2. No genuine medium-term financial management framework
3. Control monopoly of classical cameralistics

¹⁹ Schauer (2008) p. 2.

²⁰ The term „current budgetary framework“ refers to the budget law until 2008. Although the new budget law for the period 2009-2012 is already adopted, it will only enter into force on 1st January 2009 and is presented in the next chapter in full.

4. Centralised und itemised approach of management of state bodies as a consequence of traditional hierarchical organisational structures with weak accountability and a lack of autonomy.

As far as the **orientation on inputs** is concerned, more attention needs to be directed towards a systematic and coherent framework integrating output and outcome orientation on all levels. Such an integration of performance with financial/budget management could substantially foster policy-coordination and the effectiveness of public administration and public services. All levels of budget management should be addressed such as the macro- and the micro-level including medium-term and annual planning.

The strong focus on annual budgets creates a decoupling of budget periods without **genuine medium-term planning and policy-making**. As a substitute, the biannual budget planning horizon evolved in practice proves the need for such a longer-term framework. Although the optional two-year planning horizon enabled certain necessary reforms and reallocations, a true binding medium-term financial management framework could generate the following benefits and could be used for the following purposes:

- Budgetary planning and management for line ministries would be improved by longer-term certainty over budgetary allocations.
- Furthermore, budgetary discipline could be strengthened through binding expenditure ceilings. The politically attractive pro-cyclical fiscal management would be rendered more difficult.
- A basis for a stronger orientation on outputs and outcomes on the macro-level could be established.

Despite the existence of **accrual accounting and cost accounting**, cash budgeting and cash accounting are still dominant in managing resources. Accrual accounting as well as cost accounting bear a “shadowy existence”. An integration of the different elements of budgeting and accounting including a modernisation of the accrual accounting regime could lead to

- increased transparency and a fair view of the financial situation which can only be achieved by means of a modern accounting system,
- a focus on both resource-based *and* cash-based information
- visibility of the full cost of government

Despite single activities in the decentralisation of budget such as the creation of selected flexible agencies, budget management is still very centralised, input oriented and fragmented. An integrated management of resources in the sense of a global budget for state bo-

dies was not implemented for the whole federal sector. The idea of a global budget for both line ministries as well as state bodies could lead to

- an integration of management of personnel and other types of resources
- increased autonomy, but also accountability for decentralised units
- incentives for better use of resources, i.e. efficiency, and for additional revenues

Addressing these deficiencies, an integrated budgetary reform was enacted in December 2007. The reform elements are described in the following chapter.

4. Budget Reform

This chapter outlines the central pillars of the budget reform and furthermore, the potential of a tighter coupling of elements and structures within the financial management system is analysed.

4.1. The Austrian Federal Budget Reform²¹

The Austrian Federal Budget Reform is based on an amendment of the constitution which was unanimously adopted in Parliament in December 2007. The new budgetary principles adopted in the constitution build the basis for the reform. These principles are:

- Outcome orientation
- Efficiency
- Transparency
- True and fair view

Since the reform is quite large in scale, key elements are going to be implemented in two stages. The **first stage** is going to take effect in **2009**. The cornerstone of the first stage is the introduction of a **4-year medium-term expenditure framework (MTEF)** with binding ceilings enacted into law. In addition, incentives for

line ministries for a more efficient use of resources will be created through more flexibility in building reserves and carrying forward appropriations from one year to another. The Annual Budget Law as the legal basis for the first stage is already adopted.

Table 1 shows the five headings of the MTEF representing the main policy fields. Expenditure ceilings will be set on heading level as well as for the underlying budget chapter level representing the different ministries' portfolios. These ceilings will be binding - on heading level for four years, on the chapter level for the following year. The chapter level limits for the other three years will be of a merely indicative character. A new fourth year will be added every year. In this way, medium-term budgetary planning should be ensured irrespective of the governmental period cycle. At the same time, line ministries can build reserves from any unused appropriations at the end of the year without any earmarking. This high degree of end-of-the-year and reallocations flexibility should offer ministries enough room for manoeuvre for policy changes and unexpected external effects.

As a general rule, the ceilings for about 80 per cent of total expenditure are fixed in nominal terms. Nevertheless, some expenditures which either heavily depend on the business cycle or on total tax revenues have variable ceilings based on certain indicators. (e.g. unemployment benefit).

Expenditure Category/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				

Table 1: The five categories/headings of the medium-term expenditure framework

The draft of the medium-term expenditure framework law will be accompanied by the **Budget Strategy Report**. This report will serve as an instrument for medium-term strategic budgetary planning and policy making. It will further explain the ceilings of the MTEF

but not individual appropriations. Parliament should be thereby given an opportunity to discuss the budget aggregates from an overall economic and strategic point of view.

²¹ For further details see Steger (2008), Steger/Pichler (2008), Steger (2007) and Steger/Mungenast (2005).

The **second stage of the budget** reform will take into effect **in 2013**, whereby the corresponding constitutional amendment has already been adopted by Parliament in December 2007 together with the first stage. The Ministry of Finance is currently drafting and preparing the corresponding Federal Budget Law.

The second stage of the reform consists of the following four key elements:

1. A new budget structure (global budgeting instead of line item budgeting)
2. Results-oriented management of state bodies
3. Accrual accounting and budgeting
4. Performance Budgeting

These elements are depicted in Figure 1 intending to visualise the integration of these reform areas into a consistent framework, which should finally lead to improved budgetary decisions. The performance budgeting element is placed in middle to emphasize that performance orientation can only work if it is conceptually linked with other elements of the budget management system. By contrast, the current budget law primarily focuses on inputs and performance orientation is de-coupled from budgetary decision-making and accounting.

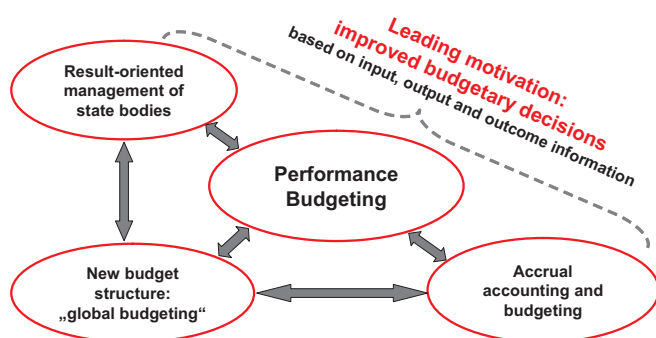


Figure 1: The four key elements of the second stage of the Austrian federal budget reform

In the following, the four reform elements are described in more detail, starting with the new budget structure.

A **new budget structure** is seen as the necessary prerequisite for the other reform elements since it has to ensure that resources employed can be assigned to organisational units and functional areas according to desired performance objectives. Figure 2 shows that within the budget chapters, global budgets are going to be introduced instead of the current appropriation

line items and thus, streamlining the budget. Instead of more than a thousand line items, the future budget should consist of about a hundred global budgets. For a decentralised budget management, the legally binding global budgets will be further divided into detail budgets whereby the latter will only be binding within the public administration.

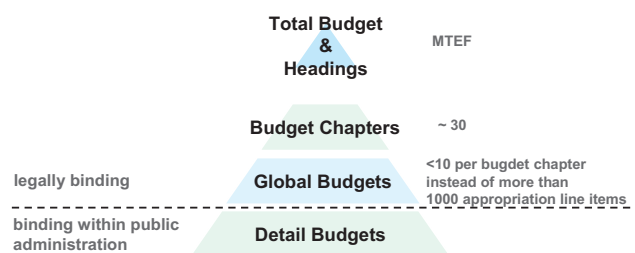


Figure 2: The new budget structure

As said before, a particular focus is laid on performance management, especially the integration of **performance budgeting** as well as performance management into the budgetary decision-making process.

As far as the concept for performance budgeting is concerned, Austria does not have to start from zero. On the one hand, some performance information is already included into the budget documents and on the other hand, line ministries in some fields already have experience with measuring performance. However, the aim is now to interweave input-, output- and outcome information in the budget documentation in a consistent and transparent manner. As depicted in Figure 3, outputs and outcomes will be formulated for all policy fields on all budgetary levels. At the same time, in order to avoid an administrative overkill, the performance budgeting system will be designed in a way that a focus on priorities is demanded and documentation is kept as short and simple as possible.

Furthermore, a direct linkage between performance indicators and budgetary allocations, the so-called "taximeter budgeting", is conceptually and practically highly problematic²² and therefore explicitly excluded. Instead, the aim is to link (political) decision-making and management with budgeting. In a paper on the future of budgeting, Allen Schick makes the pessimistic forecast that "the budget will duly register what has been decided already or elsewhere whether by formula or by others, but it will not be the forum for making many of the decisions".²³ This is currently quite often true for Austria. Therefore the applied approach for performance budgeting aims at strengthening the budget as a forum for making decisions, thus linking

²² Schick (2007), p. 12.

²³ Schick (2002), p. 47.

financial management with policy-making. The Finance Ministry is thereby aware that a successful implementation of performance budgeting involves

a cultural change in politics and administration. Such changes take time and represent a process of on-going progress and improvement.

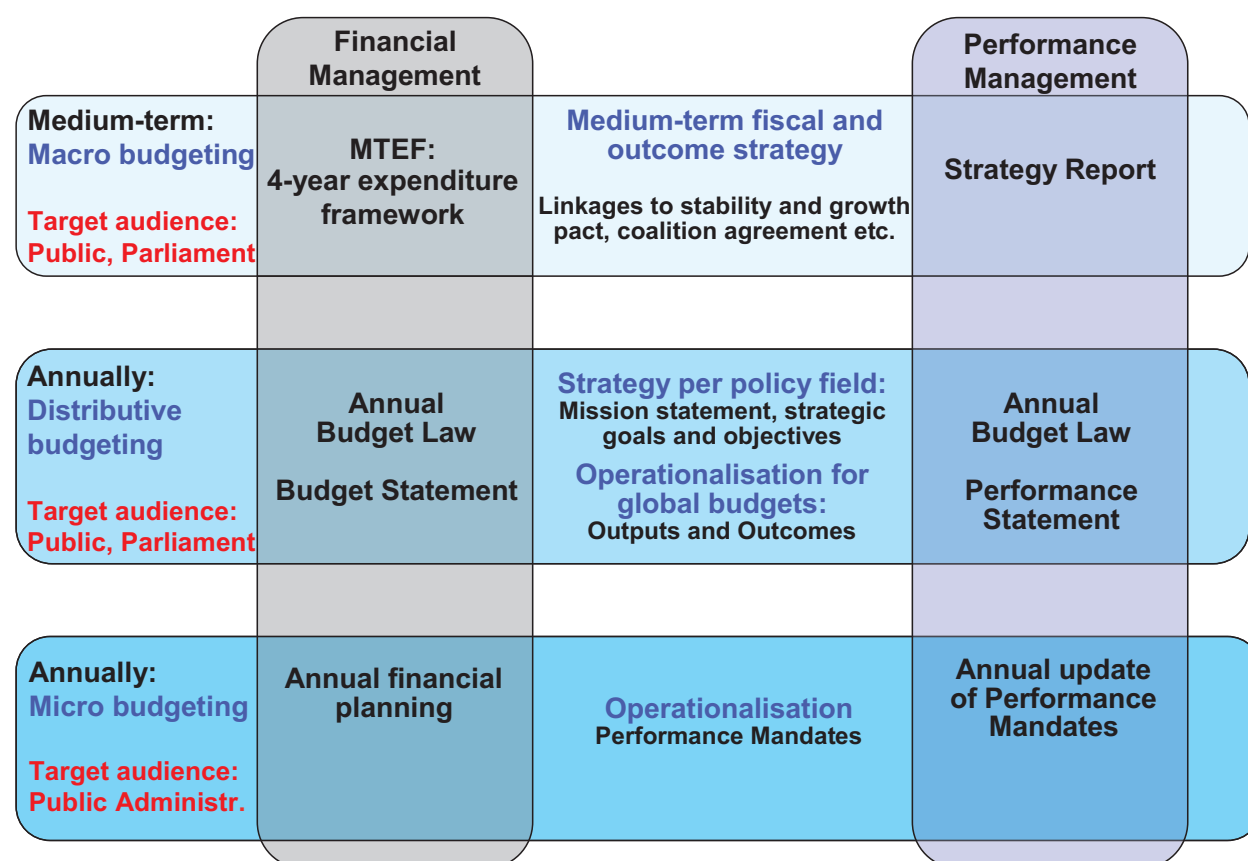


Figure 3: Integrating financial and performance management in medium-term and annual budgeting in Austria as of 2013

If financial management and policy-making are to be linked, this has to encompass all budgetary levels, from the macro- to the micro-level as graphically displayed in Figure 3. The MTEF and the strategy report are the instruments used on the macro-level. As far as the distribute budget level is concerned, the federal budget law will combine a budget and a performance statement on aggregate level. Resources, outputs and outcomes are defined for the global budgets and formally enacted in the annual budget law. On the micro-level, i.e. the detail budget level, the prerequisites for a **results-oriented management of state bodies** have to be created, which represents the third key element of the second stage of the reform.

Results-oriented management requires, that outputs and outcomes defined in the annual budget law are put into operation. The instruments foreseen for this purpose are annually amended “performance mandates”. From a conceptual point of view, the challenge will be to make these mandates a

comprehensive steering document for state bodies empowering and governing their activities. These documents should serve as a tool for integrative management of finances, personnel and performance as already tested within the flexibility clause. However, since the Federal Chancellery is in charge of human resource management, the link to personnel management cannot realistically be fully envisaged at this stage.

Figure 4 displays the intended **integration between the organisational structure with the budget structure and performance levels**. Each element in the budget structure has a corresponding element at the performance level. For effective budget management, the budget and performance structures are connected to the organisational structure in order to determine clear accountabilities. Whereas high aggregate budget and strategic management is dedicated to the line ministry directly, operational management is delegated via performance mandates and a detail budget to state bodies.

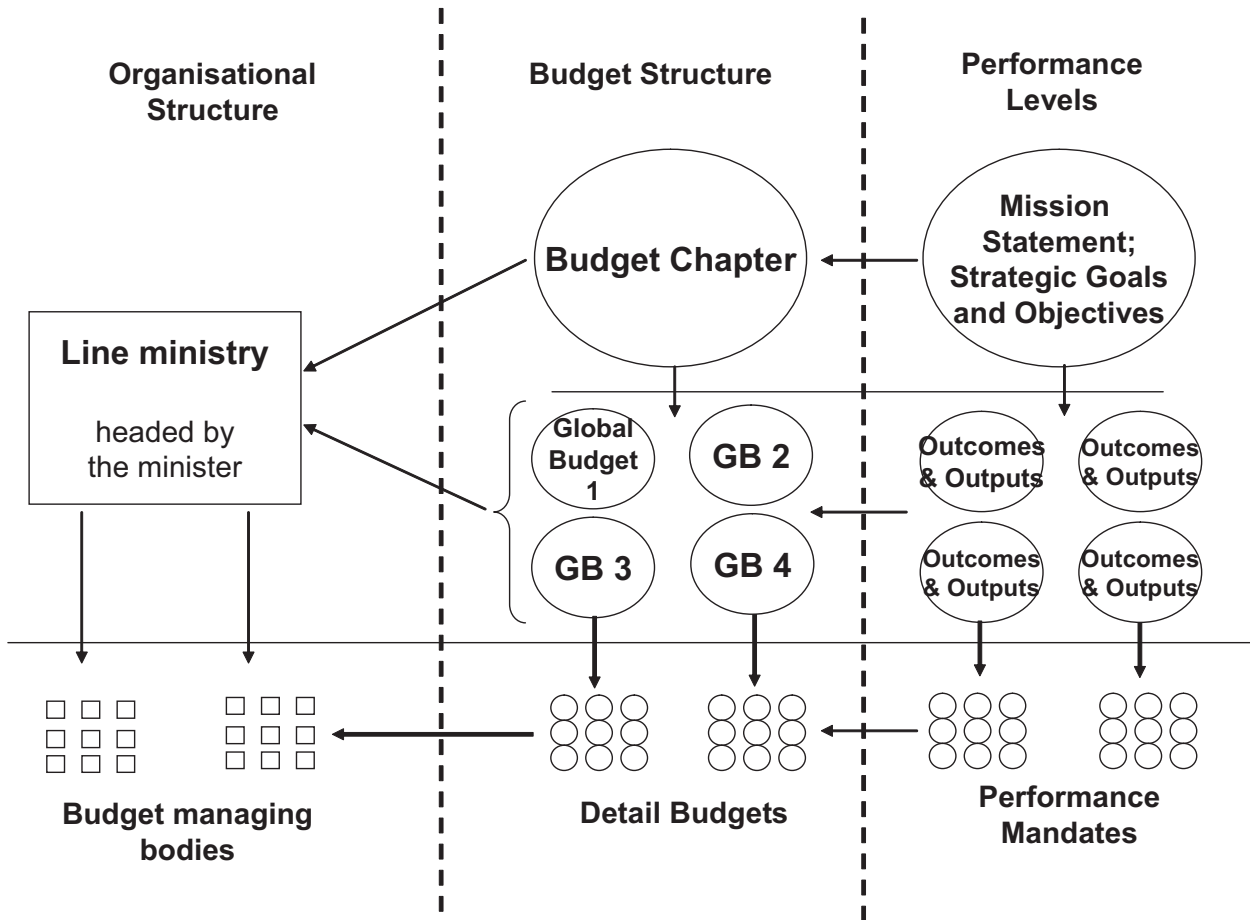


Figure 4: The integration of organisational, budget and performance management structures

The objective of the reform is to create better instruments for management decisions, for budget steering activities as well as improved information for politics, administration and the public about the financial status of the ministries and the federal sector. For that reason, performance information is only one component, another one is covered by the fourth key element, the reform of the **accounting and budget system**. In this case, accounting and budgeting will be integrated into a consistent management information framework and conceptual links will be created between the different elements of accounting and budgeting. On the one hand, accrual accounting will be enriched by a cash flow statement. On the other, accrual accounting will be combined with accrual budgeting so that the operating statement as well as the cash flow statement are building the basis for the development of the MTEF and the annual budgets. The cash budget will be derived from the operating budget. In addition, non-cash expenses, such as depreciation, will be inte-

grated into the budget so that they can be managed at all stages of the budgeting cycle and are no longer beyond decision making.

If accrual accounting is to become a management instrument rather than a mere pool of information, it has to be combined with accrual budgeting instead of purely cash-based budgeting. In this sense, the dominant budgetary process is linked with the accounting process. Accruals have to be considered in the core practice so that the conceptual link is being laid as a basis for a more periodic resource-based view to budgeting. Otherwise, there is a missing link to political and administrative decision-making and control practices.²⁴ IPSAS 24 also requires a reconciliation of the budgeted and actual amounts which does not simply refer to a mere addition of some budget information to the rest of the financial reporting, but necessitates a bridge between budgeting and financial accounting.

²⁴ Lüder (2005) p. 354.

The budget will consist of both, accrual and cash budget elements and will be linked to accrual accounting by the integrated base of information of budget. This reconciliation is not trivial. Therefore pragmatic solutions have to be found and activities should be technically linked but not interwoven. Also, cost accounting is harmonised with accrual accounting.

Accrual accounting will be aligned to the IPSAS framework so that a connection to international accounting practice is secured. Deviations from IPSAS will mainly arise for budgetary purposes as well as pragmatic reasons. Accounting standards are set by the Ministry of Finance with the consent of the Court of Audit; there is no independent or advisory accounting standards board.

4.2. Potential for tighter coupling of structures and instruments within the new framework

The budget reform integrates new elements and reconfigures existing management tools, concepts and instruments into a coherent framework. Therefore, the links between the elements have to be analysed and regarded in more detail. At the same time, linking does not always mean full integration, in the sense of mathematical, technical linkages. Pollitt (2001) reminds us that “there is still a long way to go before full integration at all relevant interfaces is achieved”. Being aware that close integrative linking in specific areas can have negative effects, links have to be established, but in a sense that the system is viable in practice and bureaucratic overkill is avoided.

The introduction of a **mid term expenditure framework (MTEF)** sets a closer temporal link between annual budgets in a consistent long-term planning framework. The link has a conceptual (define the relationship between MTEF and annual budget), technical (the same technical infrastructure is used) and organisational (MTEF is operated by the same actors as the annual budget) dimension. The MTEF will be put into operation in 2009 so that concrete practical links between the MTEF and the annual budget have not yet been established and experienced. Despite the strong conceptual link (the MTEF is the basis for the annual budget), decoupling could arise in practice if the MTEF is regularly changed and adapted to the requirements of annual budget so that the relationship between MTEF and annual budget are reversed.

Flexibility within the ceilings, accountability and budget discipline should be the outcome of this integration.

The **strategy report** links budget management and performance budgeting in the medium-term. The conceptual link of the MTEF with strategic objectives and strategic performance indicators intends a comprehensive financial and performance document for the management of state activities. The link will be established by an integrated document, an integral discussion, but not by resource allocations directly linked with performance indicators (no “taximeter-budgeting”).

The mid-term management elements will be linked in the 2nd stage of the reform with a reconfigured annual budget whereby the **budget structure** will serve as a conceptual link between financial and performance management. The budget structure, therefore, is the prerequisite for the integration of the other elements. The budget structure has to ensure that resources employed can be assigned to respective organisational units and functional areas according to the desired performance objectives. The key element for budgeting at the micro-level will be global budgets that link all categories of resources with performance information and at the same time provide wide-ranging flexibility in the use of resources.

The present budget law does not have a conceptual link to **performance budgeting**. Although some performance indicators are mentioned in the appendices of the budget, the budget law only defines how inputs are budgeted without considering output or outcome objectives. Performance budgeting is expected to create a linkage of performance and budget management in a systematic way in particular for the political and middle management (administrative) level. However, as already mentioned above, direct linkages between performance indicators and budgetary allocations are explicitly excluded. Instead, the aim is to strengthen the budget as a forum for (political) decision-making.

Breul (2001) emphasises in his study on the Government Performance and Results Act that “few are able to link their plan and budgets at the most specific, performance goal level”.²⁵ Therefore our concept is pragmatic-driven and will demand priority-setting instead of perfectionist full coverage of resources.

The system of parallel **accounting** models will be replaced by an integrated accounting model that links accrual and cash dimensions, budget and recognition as well as budget management with information for statistical and accounting purposes. The accounting system is aligned with the IPSAS framework and should

²⁵ Breul (2001), p. 323.

enable a full consolidation of controlled entities. Thus, a link to private accounting systems is being created. Beside the conceptual links, which have to avoid parallel systems without functional effect, technical links have to ensure the integration of different accounting systems (asset accounting, material accounting, consolidation). Organisational links have to be created in order to enable a division of labour within the accounting system without at the same time decoupling the systems.

The **cost accounting system** is integrated in the accounting and budgeting framework. Cost accounting is no longer a separate system. The cost accounting system has harmonised definitions of cost with expenses such as Bals (2004) demands an integration of accounting principles of cost and financial accounting. In addition, cost accounting is harmonised with the budget structure so that the cost accounting system specifies the operating statement and provides additional information on overhead or calculation of products and services. In this sense, cost accounting is the missing link between financial accounting and budgeting and performance accounting. This conceptual link is supported by strong technical links to ensure a solution at optimised administrative costs. Strong organisational links have to prevent the development of a parallel system.

Results-oriented management of state bodies streamlines performance and budget management in a systematic manner between different hierarchical levels within the public administration. A performance mandate serves as a coherent framework document, combining resources (personnel, budget, other forms of resources), revenues as well as output and outcome objectives and indicators. These conceptual links, especially between personnel and budget management, should empower subordinated state bodies and lay the basis for performance accountability at this level. By defining clear responsibilities of state bodies as well as the role of the corresponding superordinated unit in line ministries and of the the Ministry of Finance the missing organisation links should be closed. However, since the Federal Chancellery is in charge of human resource management, the budget reform implemented by the Ministry of Finance does not include any changes in personnel laws and regulations. As a result, the missing link between budget and personnel management cannot be established with this reform. In order to generate the full benefit, a general reform of the personnel laws in the federal public sector would be the next logical step.

5. Conclusions

During the last years, the Austrian budgetary system underwent several reforms. Top down budgeting, budget and personnel controlling, flexible agencies as well as cost accounting were implemented. Nevertheless, a comprehensive budget reform reconfiguring the budget system and envisaging the main deficiencies of the system had not been implemented until the end of 2007. The current budget reform will be realised in two stages. During stage one a medium-term expenditure framework and a strategy report will link medium-term budget management with financial strategies and annual budgets in a coherent framework.

The second stage of the reform envisages the missing links in the financial and management system. The actual budget is purely input-oriented, centralistic and detail-oriented. The accounting system is divided in three part systems that are not fully connected. Therefore, the reform tries to close the missing links by a coherent, integrative conceptual link between budgeting and accounting, accrual and cash accounting, performance management, financial and personnel management, both at the federal ministry and the sub-ordinated state body level. Stronger organisational links have to be established to avoid different emerging communities supporting de-coupling phenomena.

The budget reform aims at establishing links between different instruments whereby linking does not always mean full integration since in specific areas such as performance budgeting this is either impossible or could lead to unintended effects. Links, therefore, have to be established in a way that the system is viable in practice and bureaucratic overkill is avoided. Another challenge in the implementation will be to avoid de-coupling. Furthermore, the system should be open for further development such as a stronger integration or adaptations of certain elements (for instance in case of new IPSAS standards). The budget reform is more than a purely conceptual, technical or legal amendment, it is intended to initiate a cultural change process in Austrian public management at federal level. Anybody involved in the implementation has to be aware that links can be shaped deliberately. Cultural change, however, is a complex process that is only *mediated* by instruments and links. The success of the budget reform will therefore finally depend on how public managers and politicians interact within the new system in practice.

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