

Budget reform in Austria: From traditional to modern budgeting

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Recibido: Diciembre 2012

Aceptado: Enero 2013

Resumen

En diciembre de 2007 y diciembre de 2009, el parlamento federal de Austria decidió sobre un paquete de reforma presupuestaria integral de largo alcance. La introducción de un marco de gasto a medio plazo legalmente vinculante, del presupuesto y contabilidad en términos de devengo, así como el presupuesto por resultados (incluyendo la cuestión de género) y de una estructura presupuestaria más transparente, marca un cambio decisivo no sólo en la aplicación del presupuesto sino, más aún, en la cultura administrativa y política austriaca.

Finalmente, ambas decisiones legislativas se adoptaron de forma unánime. Este artículo describe los respectivos cambios en gestión y proporciona una perspectiva general de los principales elementos de la reforma en Austria.

El primer presupuesto que pone en práctica plenamente la reforma —el presupuesto federal anual para 2013— fue aprobado por el parlamento austriaco en noviembre de 2012. Así, este artículo pone de relieve cómo los elementos de la reforma se aplican en la práctica.

Palabras clave: Reforma presupuestaria, presupuesto por resultados, presupuesto de género, presupuesto y contabilidad en devengo, marco de gasto a medio plazo, proyección fiscal a largo plazo, disciplina presupuestaria, reservas presupuestarias.

Clasificación JEL: H0, H39, H40, H50, H61, H83 K0, K19.

Abstract

In December 2007 and December 2009, Austria's federal parliament decided on a far reaching comprehensive budget reform package. The introduction of a legally binding medium-term expenditure framework, of accrual budgeting and accounting as well as performance budgeting (including gender budgeting) and a more transparent budget structure marks a decisive change not only in steering the budget, but even more in the Austrian administrative and political culture.

Both legislative decisions were finally taken unanimously. This article describes the respective change management and gives an overview of the main Austrian reform elements.

The first budget which fully implements the reform — the annual federal budget for 2013 — was approved by the Austrian parliament in November 2012. Thus, this article highlights how the reform elements are applied in practice.

Keywords: Budget reform, performance budgeting, gender budgeting, accrual budgeting and accounting, medium term expenditure framework, long-term fiscal projection, budget discipline, budget reserves.

JEL Classification: H0, H39, H40, H50, H61, H83 K0, K19.

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Introduction

Austria's public sector is comparatively large. General government revenues and expenditures as a percentage of GDP are well above OECD average¹. Austria is a federalist country where regions and communities play an important role: The sub-central levels of government employ approximately two thirds of the public work force². Expenditure of the sub-central governments amount to more than 80% of the federal level³.

The federal administration is characterized by large centrally-managed ministries, although during the past two decades a considerable number of administration entities were hived off and transformed into state owned enterprises⁴.

Up to the mid 1990's budget formulation in Austria was very traditional, cash-based, highly legalistic and input oriented. Numerous detailed and legally binding line item appropriations prevented the flexible use of resources to a large extent. This led to growing dissatisfaction within the federal administration, as the weaknesses of this system became more and more obvious: There was no binding medium-term perspective for budgeting, which created planning problems both for the Ministry of Finance (MoF) and the line ministries. The focus of budgeting prevailed on inputs and neglected performance results. As classic cash-based cameralistics characterized public accounting, important financial information was lacking. Therefore, the budget administration within MoF started to develop reform ideas to counter those problems. It successfully lobbied for political support and managed to get political approval for the first reform elements.

The first important changes were the introduction of top down budgeting (in 1996) and pilot projects to experiment with new forms of budget flexibility and performance information (starting in 2000): So-called "flexible agencies", (administrative units which remained part of the respective ministry and were not hived off), received a lump sum appropriation per year, had the flexibility of redeployments within that lump sum and could carry forward most of the respective money if financial results were better than originally planned. For these agencies both resources and intended results were defined several years in advance. The results were very encouraging: The administrative and budget culture in the respective agencies improved considerably and civil servants were much more motivated than before. Although these pilot projects did not cover more than around 20 administrative units in different line ministries, they became crucial for the Austrian budget reform process: It became obvious that new fiscal rules could generate better fiscal results and better performance at the same time.

Encouraged by that positive experience MoF started an in depth analysis of fiscal rules in various countries to create a comprehensive steering model for the Austrian federal budget. As far as the international examples are concerned, Austria gathered most information via the OECD-network of Senior Budget Officials. Thus, international budget reform experience, both successes and failures, had a crucial influence on developing the reform model. Austria asked the OECD secretariat to write a country report on budgeting in Austria⁵ and OECD staff was invited by Austrian authorities to present the results of the country report and additional OECD experience on budget reforms. This OECD-input bolstered the Austrian government to stick to the reform process.

How to bring stakeholders on board

From the start of the reform initiative it was obvious that it would take a number of years to develop and implement the respective changes. Therefore, it seemed crucial to ensure that the reform would not depend on the then existing political constellation, but would survive under different governments. Thus, the reform process had to integrate all political parties represented in parliament. A general political consensus should keep the reform out of political day to day quarrels and label it as a modernization project that would be supported by all relevant political forces.

For that purpose, an adequate forum was needed: An informal parliamentary reform committee was established in autumn 2004. All political parties with representation in parliament and several experts were integrated. The committee acted as a platform of discussion between MoF and party representatives. MoF presented its ideas for the reform design and later on detailed drafts for legislative amendments. The representatives of political parties discussed these suggestions and gave feed-back to the MoF. Finally the MoF-approach was accepted with only minor changes. The reform process created a win-win-situation for the MoF and the political parties: On the one hand, MoF could accomplish its reform; on the other, the political parties made sure that issues of particular relevance for them — such as the role and the rights of parliament in the budget process — were designed according to their needs. This referred especially to budget reporting requirements of the administration (in most cases of the MoF) to parliament and the creation of a parliamentary budget office that would support the budget committee with technical budget expertise⁶. Additionally it was attractive for parliament that the reform design included detailed and regular performance information in the future annual budget bill. Therefore, the portfolio of parliament was enriched substantially. All in all the informal parliamentary committee created a common reform spirit and established a reform-axis between MoF and parliament.

Another important stakeholder of the reform process was the Court of Audit (CoA). MoF viewed itself and the CoA as “friends of the taxpayers” and made sure that the CoA was integrated in the informal parliamentary committee from the start and had the opportunity to add its perspective. As in the case of parliament, CoA got additional levers and could broaden its portfolio: The introduction of performance budgeting needed an institution to evaluate ex post, whether and to what extent the outcomes and outputs were fulfilled. This proved to be an important task for the CoA. Additionally, CoA got the right to receive additional reports from line ministries and MoF. CoA got more opportunities to act and express its views. Thus, CoA profited from the budget reform and consequently expressed its reform support in public and towards parliament, which was important to strengthen political acceptance of the reform.

As far as line ministries were concerned, it was much tougher work to receive their reform consent. Traditionally Austrian budget legislation secured a strong MoF-position vis a vis line ministries and the latter tried — basically without success — to change that in the course of the budget reform. As any draft of new legislation in Austria has to achieve unanimity within the council of ministers, MoF had to lobby hard for that. Three factors finally helped to reach unanimity. Firstly, the reform comprised advantages for the line ministries as well, such as more flexibility both in budget preparation and execution (see details below).

The introduction of performance budgeting offered line ministries to publicly present their efforts and their successes. Secondly, the fundamental decision for the whole reform had on a constitutional basis been taken already in 2007 (see details below). Thus, there was no way back, the bridges were burned and the line ministries realized at the end of the day that their potential for resistance was limited. Thirdly, MoF made a deal with the chancellery: In return for approval and promotion of the reform, the chancellery was admitted a controlling function for performance budgeting and thereby enriched its portfolio.

This new role for the chancellery implies a monitoring of the outcomes and outputs, which are still defined by the line ministries. Due to the Austrian Constitution the chancellor has no guiding competence towards ministers. Thus, chancellery's role is to monitor results and additionally to support line ministries in implementing adequate methods and processes which generate adequate outcomes and outputs.

A traditional part of the chancellery's portfolio is the steering of administrative staff in the federal government: This does not imply recruitment decisions in line ministries, but rather focuses on the legal framework for public employment in the central government. As daily budget life shows, it is very important that the steering of budget and of personal resources coincide. Therefore, MoF and chancellery undertook common efforts to strengthen this link.

Another important stakeholder for budget reform is the public. Thus, MoF tried to persuade the public into the merits of the planned reform. The main target groups were scientists, journalists and foreign multipliers. As far as the former are concerned, the MoF confronted them (especially professors for public management and accounting) with reform ideas, got feed-back and integrated hints that fitted into the general framework. The aim was clear: The scientific community should contribute to the reform and foster a positive public climate towards the reform efforts. Professors were not hired as consultants, but MoF tried to involve them on an informal basis to ensure effective communication between the scientific community and the administration. Some of this communication worked on a bilateral basis directly between professors and the MoF, some discussions took place in public on the occasion of conferences related to budget reform issues.

Budget reform is generally seen as a very technical issue and cannot be communicated to the media easily. Therefore, MoF tried to focus on aspects of the reform that were supposedly interesting to journalists. These efforts focused on a simple question: How would citizens encounter the reform? What would change for them? Consequently the merits of good performance information were an important part of that exercise. Another one was additional information on the financial situation of the country derived from accrual accounting and budgeting. MoF organized special meetings for journalists to present the reform ideas and to generate a positive echo in the media. These efforts succeeded at least to a certain extent: When at some point the reform process was at severe risk to grind to a halt, some newspapers published articles in favour of the reform and helped to put pressure on sceptics within parliament and administration.

Foreign multipliers were another important target group. The aim at first was to use their experience for the Austrian budget reform. Secondly foreign multipliers were supposed to create an interest in and positive comments on the Austrian reform. The respective feed-

back was used at home to flag the importance of the planned reform and to show that Austria could attract positive attention by moving towards a best-practice budget reform example. The intensive MoF-participation in the Senior Budget Officials network of the OECD proved to be an excellent opportunity to get access to relevant foreign multipliers.

All in all MoF tried to create positive public awareness towards the reform and to use this favourable climate to get the reform package passed as quickly as possible.

Last but not least, it was important to bring civil servants on board. Administrative reforms can only survive if they are respected or — even better — endorsed by those who do the day to day public service. Otherwise even reforms with a strong legal basis could run the risk of being paralyzed in practice. Thus, MoF regularly informed civil servants in all ministries on the design, main elements and details of the reform. The basic assumption was that civil servants could benefit from the reform, especially from performance information: This could contribute to a positive public recognition of the public service as a whole as well as of respective ministries and their staff. Citizens and taxpayers would be in a position to realize the merits of public services. This could positively influence the traditionally sceptical attitude towards civil servants in the Austrian public.

To create ownership within the Austrian federal administration, the reform had to emerge from the civil servants who had to be the experts for change. Thus, MoF decided to rely on the huge expertise and experience of its administrative staff to design the reform. The basic assumption was: Budget people know best how to effectively change fiscal rules. The reform driver was the Directorate-General of Budget and Public Finance. While a small number of young high potentials were hired to support the Director General in steering the reform process, the whole staff of the Directorate-General was on duty to help to design and implement the reform. Therefore, there was no split between those, who would do the routine budget work and others that would construct the future. The reform was derived from budgetary practice, from the experience of those, who, in many cases for decades, were used to steer budgets, thus, knowing deficiencies and ways to overcome them.

It was obvious, that this approach motivated civil servants to support the reform and to participate in constructing the new budget world. This was an important success-factor given the technical challenges of the reform process.

Another important aspect with special regard to civil servants was to keep the involvement of consultants to a minimum. In the last decade consultants had been frequently used in the federal administration and the echo of the administrative staff was very sceptical. Civil servants had the impression that consultants would benefit from the experience and ideas of the administrative staff and would sell that to the government and earn lots of money. Additionally the hiring of consultants was understood as a clear signal to the administrative staff that they would not be able to cope with the challenges ahead and would need advice from smart consultants. This created a strong reservation among civil servants. The intensive use of consultants would have reduced the acceptance of the reform considerably.

Consultants were — to a very limited extent — used in two sectors: Development of the accrual accounting and budgeting system and IT-implementation of the reform. Civil servants did the whole design of the reform model and almost all technical development of the

numerous reform elements. Finally — it came as no surprise — this was much cheaper than the extensive use of consultants would have been.

To sum up: The Austrian MoF was aware of the fact that it needed broad support from different stakeholders to pass the budget reform. Therefore it developed a communication strategy precisely addressing relevant stakeholders and their interests. Win-win-situations should be created for everyone. If the position of a stakeholder (typically a line ministry) was likely to remain sceptical towards the reform, this attitude should be at least neutralized to the highest possible extent. Finally this strategy paid off: In December 2009 the new budget law was passed unanimously. All stakeholders got certain advantages and could claim victory in one or the other reform aspect. Broad ownership was successfully built.

How to make the reform irreversible

The aim of the Austrian budget reform was to create a comprehensive package that would not only improve budgeting, but also serve as an effective steering system for the whole federal administration and for political decision making. Therefore, it would not have been sufficient to just change one or a few elements of fiscal rules: Austria needed a complete relaunch of its budget system. The budget of the future, based on a medium-term expenditure framework with legally binding expenditure ceilings, on a transparent and flexible budget structure and on accrual accounting and budgeting, should evolve as an integrated steering instrument for financial and personal resources AND outcomes and outputs.

MoF assumed that such far reaching changes could not be managed in one single step. Consequently two major stages were envisaged: The first step would be implemented in 2009 and the second step, which would add the most ambitious parts of the reform, as of 2013. Prior to the second step intensive training for civil servants and pilot projects to test the new budget world were organized. The far reaching changes in budgeting had to be well prepared and the risk of practical failure substantially reduced.

Being aware of a common attitude in administrations to bring reform intentions to a halt, it was crucial to burn all bridges and to make sure that the reform process was completely implemented without losing momentum. But how to realize that when lots of detailed legal regulations were necessary to make change really happen? Design and decisions on those regulations would take lots of time and effort. The reform process would absorb an enormous amount of energy within the administration and political decision making. This energy had to be protected against all attitudes to stop the reform. A huge frustration potential and a considerable stranded investment of taxpayers' money had to be avoided.

The solution was inspired by soccer: A through ball and then a successful scoring. As the Austrian legal tradition is based on a rather detailed constitution in which even the basic legislation for the budget is enshrined, MoF planned to change the constitution in a way that would make fundamental change unavoidable. The core elements of the whole reform were to be rooted in the constitution already at a time when the details for the second reform step were not yet designed. If this attempt succeeded, the danger of stranded investments and lots of frustration would be successfully banned.

Backed strongly by the minister of finance and after intense discussions with stakeholders mentioned above, MoF presented two draft reform bills in 2006: The amendment of the constitution and a detailed reform bill for the first reform stage (see details below). The drafts passed the council of ministers in early 2006, but parliamentary decision was not taken because the legislative period ended and the government could not persuade the opposition to make the necessary changes of the constitution happen in the wake of national elections.

In 2007 MoF successfully tried again. Backed by an evolving spirit of common interest in the informal parliamentary committee and after several concessions to the opposition which changed details but not the basic reform design, parliament passed both reform bills unanimously. This was a decisive victory, because, as it would be proven in the discussions of 2009, the reform process now was irreversible. Unanimous voting in parliament was a strong signal to the public and administration that this change was to stay under any political constellation after future elections. Therefore, the message for all stakeholders, especially for the administration, was clear: better adapt in time.

The change of the constitution focused on the principles for budgeting. The traditional Austrian budget principles of economicalness, thriftiness and usefulness were transformed in the four following principles that would apply as of 2013: Outcome-orientation, efficiency, transparency and true and fair view. Those four principles could not be put into practice by sticking to the traditional budget system. For instance: True and fair view of the federal finances was not compatible with just a cash-based budgeting. Outcome-orientation was not in line with lack of performance budgeting.

This amendment of the constitution marked a decisive change not only in Austrian fiscal rules but in steering the central government of Austria. Especially the outcome-orientation was perceived to act as a catalyst for a new culture in politics and administration in favour of orientation on results.

After unanimous parliamentary decision on the first reform package in 2007 the Austrian MoF could focus on working out the details for the second reform step starting in 2013. From 2008 until summer 2009 a complete new budget law was constructed. This was accompanied by numerous discussions on all the reform aspects with line ministries, chancellery, CoA, informal parliamentary committee and scientific community. Within the MoF a very close cooperation between the budget department and the IT-department made sure that the technical design of the reform would be appropriate.

In autumn 2009 the political bargaining on the reform law started. This was especially tough, as some line ministries tried to weaken the central MoF-position in planning and executing the budget. As mentioned above this resistance was defeated in a political deal between MoF and chancellery. This deal was supported by the unavoidable pressure that an agreement had to be found quickly because the bridges were burned and the implementation of the new budget world would require several years. The time line ordered by the constitution was clear: The new budget world had to function on 1st of January 2013. There was no way out. Intensive negotiations between MoF and the chancellery in late autumn 2009 resulted in an agreement that safeguarded the reform design and provided the chancellery with additional competences (mentioned above). As the heads of the political parties in government (one headed the chancellery, the other the MoF) had an agreement, all line ministries

had to accept that and the draft budget law passed the council of ministers. After intensive negotiations between all political parties represented in parliament a consensus was reached and the reform passed parliament by unanimous decision on 11th of December 2009.

The first reform stage

Based on amendments of the constitution and of the budget law, which were part of the 2007 reform package, the first reform step was implemented in 2009: The introduction of a medium-term expenditure framework (MTEF) and more flexibility for line ministries.

The MTEF contains legally binding expenditure ceilings four years in advance on a rolling basis. For instance: In spring 2012 parliament passed the MTEF covering the years 2013-2016, in spring 2013 the MTEF for 2014-2017 will be on the agenda. The ceilings apply for groups of chapters (so called "rubrics"). Each of the five rubrics has its own expenditure ceiling, which add to one general ceiling for the federal budget. The five rubrics represent the following budget clusters:

1. Law and security (ministries for justice; interior; defence; foreign affairs; administration of the MoF; chancellery)
2. Employment, social services, health and family (self-explanatory)
3. Education, research, art and culture (self-explanatory)
4. Economic affairs, infrastructure and environment (ministries for economy; agriculture, forestry, water and environment; infrastructure; part of MoF)
5. Financial management and interest (part of MoF)

The Austrian system distinguishes between two different expenditure ceilings. Firstly a nominal fixed ceiling expressed in euros which applies for most (about three quarters) of federal expenditure; secondly a variable ceiling that oscillates along defined parameters. This ceiling applies for expenditure related to the business cycle, therefore makes sure, that the automatic stabilizers can work accordingly and exerts a counter-cyclical influence on the economy. Other applications of the variable ceiling are expenditure related to reimbursements from the EU, expenditure directly related to revenue (for instance shares of tax revenue for co-financing hospitals) or expenditure for guarantees. Thus, variable ceilings apply for expenditure, which cannot be sufficiently calculated in advance. Most of the variable expenditure is contained in rubric 2. Rubrics are divided into chapters; each of them is clearly assigned to one specific line ministry.

The draft MTEF has to be presented to parliament annually by 30th of April at the latest and is accompanied by a so called "strategy report", which explains the figures in the MTEF and thus, the budget priorities of the government. The MTEF focuses on the macro-level of the budget, as figures are only provided for big budget clusters (rubrics and chapters) and do not go into the details. It needs an amendment of the MTEF to change the expenditure ceilings. Thus, government has to seek parliamentary approval for the requested changes.

In autumn the annual budget bill, which has to stay within the boundaries of the MTEF, is presented to parliament and contains the details for each budget chapter.

The MTEF is a lever for both MoF and line ministries to improve budget planning. While MoF is interested to enforce restrictive expenditure ceilings and stick to them even in difficult times, line ministries do have their part of the deal. If they save money within the expenditure ceilings, they are allowed to build reserves and use them in later years — even for different purposes. This is a huge advantage for line ministries: Up to 2008 only in exceptional cases reserves were built, which could only be used for those purposes, for which they were originally budgeted.

The new principle is: „Every minister his/her own finance minister.“ Each line ministry has incentives to save money for rainy days. Each minister may finance special projects, which were not budgeted from the start, by savings within the ministries funds. The new flexibility for line ministries even allows to treat certain (not each) extra revenue (which exceeds the budgeted amounts) as reserves and to use these resources within the priorities of the line ministry. Therefore, reserves (saved money or extra revenue) are covered by the expenditure ceiling for the respective ministry.

Since 2009 practical reform experience was very encouraging. On the one hand MTEF proved to be a very helpful lid on expenditure: As financial markets and rating agencies watched very closely, if the ceilings were breached or not, the Austrian government had to be aware of considerable reputational costs (which could easily convert into additional interest costs), if expenditure ceilings were not respected. Thus, most changes of the ceilings occurred because they were lowered (in the course of consolidation packages).

Under the former budget regime line ministries would have spent all unused funds at the end of a fiscal year (the so called “december-fever”). This attitude changed dramatically. As line ministries knew that unused funds belonged to them, they started to underspend and to build considerable reserves of several billion Euros all in all. The longer the line ministries wait to spend their reserves, the larger are positive budget effects due to interest savings as reserves are financed when they are used and not when they are built. Thus, the new reserves-policy creates a win-win-situation for MoF and line ministries. As the latter have to seek the consent of MoF, if they want to finance projects above a certain financial threshold, MoF still can prevent dangerous budget developments: If, for instance, a line ministry would want to use its reserves to start a permanent new spending program, which is only covered by reserves throughout, say, the first two years, MoF can still effectively act as a budgetary gate keeper.

The second reform stage

Based on the constitutional principles mentioned above the key reform elements introduced as of 2013 are⁷:

- * improvement in long term budget planning processes
- * a new budget structure based on “global budgets”
- * accrual accounting and budgeting
- * performance budgeting
- * mechanisms to foster performance and budget discipline

Inspired by other OECD countries Austria introduces a regular (every three years) long term fiscal projection (LTFP) which covers at least 30 years in advance. Thus, Austria adds a long term budget perspective to the already existing MTEF. Although the results of the LTFP are not legally predefining the figures of the MTEF, a consistent approach will be necessary in practice, which should further improve the budget planning process in Austria. This is particularly relevant for policy reforms — such as pension and health issues — which are urgently needed to foster long term fiscal sustainability.

A new budget structure is seen as a necessary prerequisite for other reform elements since it has to ensure that resources can be assigned to administrative units and functional areas according to desired performance objectives. Rubrics and chapters are kept from the first reform stage. But below chapters the budget structure changes considerably. Until 2012 more than 1000 line item appropriations were legally binding for the execution of the Austrian federal budget and redeployments of funds between appropriations were allowed only in certain circumstances as defined in the budget law or in the annual budget bill. The reform simplifies the budget structure, thus fostering the flexible use of budget resources. As of 2013 the budget structure of each line ministry consists of few “global budgets”. Thus, the number of legally binding budget entities is reduced dramatically: From more than 1000 line item appropriations to 70 global budgets. Beneath the latter around 400 so called “detailed budgets” will provide extensive budget information to parliament and the public, though figures at this budget level will be indicative instead of legally binding, which means that they may change in the course of budget execution (within the boundaries of legally binding global budgets).

The merits of that simplification of the budget structure are obvious: Firstly line ministries gain flexibility as they can redeploy funds within a global budget. Secondly parliament and the public will have a clearer picture which budget entity deals with what, as the very technical and detailed line item appropriations will be replaced by global budgets each ringfencing a budget cluster, which purpose is easy to explain. For instance, one global budget within Ministry of Education focuses on schools, another global budget within Ministry of Labour and Social Affairs deals with the labour market, a global budget within Ministry of Justice comprises all Austrian federal courts. Thirdly, the governance of line ministries should be improved by creating close links between performance objectives, responsible administrative units and respective budget structure.

In the course of defining the new budget structure the reform spirit quickly became visible: Ministries started to discuss how to change the traditional administrative structures to define appropriate responsibilities for the new budget entities linked to the emerging performance objectives. Thus, the reform creates a “magnet field” fostering convergence of traditionally different logics, which would up to now materialize in different structures not sufficiently connected to each other: Steering administration, human resources and budgets.

Traditionally Austria’s federal budget was planned and executed on cash basis. This changes as of 2013 with a switch to accrual accounting and accrual budgeting. The reason for that is simple: A budget only based on cash does not provide sufficient financial information. For instance a cash perspective cannot answer the question if at the end of a fiscal year a country is richer or poorer than a year ago. If an asset is sold, revenue comes in. In a cash

only-world the additional revenue is shown, while the lost asset simply vanishes without traces in the budget. Thus, cash may produce fiscal illusions.

The Austrian accrual approach is consistent with most IPSAS standards, but some deviations occur. If the respective standard is perceived to have very limited impact on steering public finances or bears the danger of too much complexity or bureaucracy Austria does not apply it. An important aspect of the new accounting system is to integrate budget and cost accounting in order to make the latter relevant for steering purposes. Prior to 2013 cost accounting was existing on the federal government level but lacked consistency with the cash only-perspective of the then existing budget world. Thus, cost accounting had very limited practical relevance. As of 2013 this is about to change. Accounting standards are set by the MoF with the consent of CoA.

Austria's accrual approach consists of a cash flow statement and an operating statement, both integrated in the annual budget bill. Non-cash expenses, such as depreciation and provisions, are included in the budget. Therefore, both perspectives — use of cash and use of resources — will be available for steering the budget properly. An opening balance sheet (reference date: 1st of January 2013) will be generated, in the course of the annual accounts CoA will draw up a balance sheet regularly.

Performance budgeting

Outcome-orientation makes the budget a comprehensive steering document focusing on resources AND performance. Based on the analysis of foreign performance budgeting-experiences⁸ it was concluded that the new system should be lean (avoid a “performance bureaucracy”, concentrate on the most relevant aspects), sustainable (goals and indicators should not change frequently as many objectives required an implementation period of several years) and relevant (integration of performance goals and indicators in the annual budget bill).

As far as the MTEF is concerned, the attached budget strategy report refers to intended outcomes of line ministries within the respective four years period.

In the annual budget bill performance information is be presented as follows:

On the level of budget chapters a brief mission statement and a maximum of five outcome objectives have to be defined and are part of the budget decision in parliament. Each outcome has to be justified and explained very briefly according to three dimensions: Why has this outcome been chosen? How is the outcome pursued? What is the benchmark for success?

A practical example derived from the annual budget 2013: The budget chapter “Labour” (one of three budget chapters of the Ministry of Labour, Social Affairs and Consumer Protection) contains the outcome “Improvement of working and earning capacity of wage earners older than 50 years”. The answer of the why-question deals with the valuable experience and knowledge of elderly wage earners, while the how-question refers to various support-programmes and the benchmark-question defines clear indicators, such as: In 2013 at least 51,5% of the population aged 50-64 should be employed. At the same time the indicator is linked precisely to the respective employment statistics.

* For each global budget a maximum of five outputs have to be defined, which are part of the parliamentary budget decision as well. Three questions have to be answered per output: To which objective would the respective output contribute? How is the output pursued? What is the benchmark for success?

Referring to the example of the labour market mentioned above the respective outputs deal with several programmes and the answers of the benchmark-questions relegate to participation figures for these programmes.

* To make sure that every person who deals with the budget is aware of the potential for improvement, the CoA may add a very brief summary of its recommendations for the respective global budget. The line ministry would in turn comment on the recommendations. Thus, parliament and the public find three basic types of information in the budget: (1) resources, (2) outcomes and outputs and (3) recommendations of the CoA. Therefore, the budget answers the following key questions:

- * Which administration receives which resources?
- * Which administration has to deliver which results?
- * Which improvements should take place?

* On the level of detailed budgets a rolling four years-plan (timely congruent with MTEF) defines resources on the one and performance objectives and measures on the other hand for the respective administrative unit. These performance objectives and measures contribute to outputs at the level of global budgets and outcomes at the level of budget chapters. Thus, performance is consistently represented at all budget levels.

Although the plan is an internal document within a line ministry and not published, its substance will be an important element for the budget documents explaining the annual budget bill.

To make sure that line ministries and their administrative units take performance seriously, several watchdogs are there: Parliament decides on outcomes and outputs, which are, as mentioned above, systematically integrated in the budget bill. Thus, parliament has a new and important lever to make use of. The CoA scrutinizes if outcomes and outputs were met and publishes the results. In Austria reports of the CoA attract high public attention, which contributes effectively to the relevance of performance budgeting. The chancellery monitors line ministries and provides them with support to cope with this new performance culture. However, the chancellery does not have the power to give orders to line ministries. At the end of the day, line ministries are solely responsible for their outcomes and outputs and will earn either the honour or the shame for the results. The latter is a reputational sanction in place for not complying with the intended performance. Line ministries have to establish an internal controlling for their performance goals. The chancellery collects the respective results and reports to parliament regularly.

An important aspect of performance budgeting in Austria is the gender dimension. In the constitutional amendment of 2007, gender budgeting was explicitly named as an obligatory dimension of performance budgeting. The constitution states in its article 13 that budgets of all levels of government have to strive for the equality of women and men. Therefore the

gender dimension has to be represented at all ministries and at all levels of the performance budgeting system: At least one outcome per chapter has to deal with gender issues. As outputs on the level of global budgets and performance objectives and measures on the level of detailed budgets have to underpin objectives at the ministerial level, each budget level necessarily deals with gender issues. Gender objectives in the budget 2013 focus for instance on the following issues:

- * Better compatibility of family duties and employment (Ministry of Economic Affairs, Family and Youth).
- * Balanced representation of women in senior academic positions (Ministry of Science).
- * Improved protection against violence, particularly against women (Ministry of Interior).

Incentives and sanctions

To support the new steering mechanisms additional carrots and sticks are in place:

Modest cash-premiums for civil servants may apply if the respective administrative unit would meet its financial and performance goals. One may question whether money really helps to foster performance and budget discipline. In that respect premiums are certainly a tricky issue⁹. In Austria however, the flexible agencies (pilot projects) mentioned in the first part of this article have proven that premiums can have a positive impact on administrative staff if the awarding process is transparent and results are perceived to be reasonable.

The Austrian budget reform aims at generating an innate interest of line ministries and their administrative units to spend public money carefully and cautiously. Therefore the first stage of the reform implemented the opportunity for line ministries to carry forward unused funds and to build reserves. In the second reform stage this opportunity is extended to the respective administrative units. As of 2013 an administrative unit responsible for a detailed budget can keep the money it saves or — under certain circumstances — earns additionally. On the one hand this strengthens the position of the administrative unit towards the respective line ministry. On the other hand each line ministry allocates resources to administrative units annually. This ensures that there are checks and balances in the financial relationship of line ministries and their administrative units — and at the end of the day the line ministry has the stronger lever (allocation of fresh resources). Anyway, line ministries should be smart enough to provide sufficient incentive for their administrative units to deal efficiently and effectively with public resources.

Unfortunately budget mechanisms do not work solely on awarding good behaviour. Practical experience shows that sanctions are necessary to prevent free riding on the expense of others. Until 2012 the federal budget law lacked effective sanctions. This changes as of 2013. One of the most intensely discussed items was the MoF-suggestion to implement biting sanctions in the budget law. MoF argued that if the line ministries are granted more flexibility, there has to be a MoF-“fire brigade licence” in case of non-compliance with the rules. The

line ministries fought fiercely against that, but finally MoF succeeded. The new budget law includes the following sanctions:

- * Violations of the budget law will lead to less financial flexibility for the respective line ministry: The financial limit, where the consent of the MoF for an expense is necessary, is reduced by 50%.
- * If money was spent in violation of the budget law, MoF is obliged to cut the resources for the respective budget chapter accordingly (“an eye for an eye”).
- * In case of other violations of legal budget provisions MoF may cut the relevant budget chapter up to 2% (with a maximum amount of 10 million €).

...still to do

The Austrian reform certainly has its deficiencies. The most important one is that the reform only covers the federal and not the sub-national levels¹⁰. In a federalist country, this is a big point on the to-do-list for the future. Originally MoF planned to integrate all levels of government, but especially some regions were not willing to participate and lobbied successfully against the integration in the reform process. Never the less the successful implementation of the reform on the federal level already influences sub-national levels. The region of Styria for instance has announced to join the federal budget reform. It would be no surprise if other regions or communities would follow.

A second aspect refers to the accounting system: Hived off entities will still not be fully consolidated within the federal balance sheet. This proved to be a too complex issue to deal with in the course of the current budget reform and will be another item on the to-do-list for further reform steps.

International attention to the Austrian reform

While the Austrian budget reform was very much inspired by reform examples in other countries it now exerts considerable influence on foreign budget reform attempts.

In recognition of the Austrian reform experience the IMF invites MoF-staff to participate in country missions of the Fund. For instance Austrian national experts took part in missions to Greece, Portugal, Montenegro, the Ukraine and Sri Lanka. Austrian senior budget officials frequently do presentations on the reform around the globe. MoF receives lots of information requests from abroad and visits of foreign delegations.

The interest in the Austrian experience relates to different reform elements. While some countries focus on the MTEF¹¹, others are more interested in application of accruals or performance budgeting. UN Women promotes the Austrian gender budgeting experience as best-practice example. Thus, Austria not only profited from budget reform experiences in various countries but can now give back reform inspiration to the international budget community.

Conclusions

It has been a long way from the first reform efforts in the later 1990's to the parliamentary reform decisions in 2007 and 2009 and further on to the full application of the reform as of 2013. The cultural change aligned with the reform is not finished yet. It takes time to shift thinking and perspectives. This cultural change is strongly supported by the new legal framework, but implementation will be work in progress.

The Austrian budget reform is a comprehensive approach that not only changes specific elements of budgeting, but transforms the whole budgeting machine decisively. Furthermore the reform not only relates to fiscal rules in a strict sense: It deals with resources and performance and combines both perspectives. The budget therefore changes its character. It not only steers the allocation of money, but develops towards an integrated steering document for resources and results. That strengthens the character of the budget as the central planning document of a government.

As the Austrian reform integrates performance in the budgeting process, it aims not only at changing the administrative but also the political culture: Ministers have to decide on their priorities and to communicate them in a transparent way. Members of parliament have to vote not only on resources but at the same time on defined performance results. This strengthens the strategic dimension of policymaking in Austria.

The "hard factor" of the reform was completed successfully: The constitution was amended, the new budget law and the first annual budget bill (for 2013) applying the reform were passed. The success of the reform will now depend strongly on "soft factors": The necessary cultural change in politics and administration. It will be the task of all stakeholders, especially politicians, public managers and civil society to interact with the new system in practice and use the reform for the sake of better steering Austria into its future.

Notes

1. See details in OECD (2011), p. 59 and p.65.
2. See details in OECD (2009), p. 69.
3. Fleischmann (2010), p. 24.
4. Blöndal and Bergvall (2007), p. 61.
5. Published in the OECD Journal on Budgeting, see Blöndal and Bergvall (2007).
6. The parliamentary budget office was finally established in 2012.
7. The budget documents for 2013 are published in German on the MoF-homepage: www.bmf.gv.at/Budget
8. See OECD 2007
9. The experience of the author would suggest that the most important motivation for civil servants are not premiums but a positive climate at the workplace, especially the esteem, they get from others and the opportunity to take decisions in own responsibility.
10. Although it should be mentioned that the Austrian constitution states that all levels of government have to align with each other on budget policy. This alignment is implemented in an "Austrian Stability Pact", which focuses on budgetary coordination of the different levels of government and implements the EU-provisions for instance of the EU-"six-pack" for the federal, the regional and the local government level, but does not deal with performance results, nor with accrual accounting and budgeting.
11. Denmark cited Austria's MTEF as an inspiring example for its own budget reform. When the EU-"sixpack" was designed, Austria together with Sweden and the Netherlands served as best-practice example.

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