The Austrian Federal Budget Reform
Why a reform?

» Primary motivation: Improved budgetary decision-making

» Addresses the following weaknesses of the traditional system:
  - No binding medium-term perspective
  - Prevailing focus on inputs
  - Monopoly of cash-perspective

» The budget as a comprehensive steering instrument for resources, outputs & outcomes

» Implementation in two stages: 2009 and 2013

» Unanimous decisions in Parliament
Austrian Federal Budget Reform - Overview

new budget principles: outcome-orientation; efficiency; transparency; true and fair view
Implementation: 2 Stages, 3 Legislative Amendments

Amendment of ...

- Constitution: 1\textsuperscript{st} and 2\textsuperscript{nd} stage: Objectives, Tools, Principles
  - Unanimously adopted in Parliament in Dec. 07

- Budget Law (1\textsuperscript{st} stage since 2009): new budget management on macro-level
  - Unanimously adopted in Parliament in Dec. 07

- New Organic Budget Law (2\textsuperscript{nd} stage in 2013): new budget management on micro-level
  - Unanimously adopted in Parliament in Dec. 09
Austrian Federal Budget Reform – Legal Basis

Budgetary Principles in the Austrian Constitution

- Efficiency
- True and fair view
- Focus on outcomes
- Transparency
### Budget Reform: 1\textsuperscript{st} Stage as of 2009

<table>
<thead>
<tr>
<th>System until 2009</th>
<th>Existing System since 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Annual budgets</td>
<td>• Annual budgets</td>
</tr>
<tr>
<td>• Just medium term planning Results: not legally binding</td>
<td>• Medium term expenditure framework (MTEF) Expenditure ceilings: legally binding Fixed: 4 years in advance</td>
</tr>
<tr>
<td>• Unused funds: end of year – flexibility only in exceptional cases</td>
<td>• Unused funds - reserves: full end of the year-flexibility („Each minister his/her own finance minister“)</td>
</tr>
</tbody>
</table>
Budget Reform: 1st Stage as of 2009

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

<table>
<thead>
<tr>
<th>Heading</th>
<th>n+1</th>
<th>n+2</th>
<th>n+3</th>
<th>n+4</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 General Government Affairs, Court and Security</td>
<td></td>
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<tr>
<td>2 Employment, Social Services, Health and Family</td>
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<tr>
<td>3 Education, Research, Art &amp; Culture</td>
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</tr>
<tr>
<td>4 Economic Affairs, Infrastructure and Environment</td>
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<tr>
<td>5 Financial Management and Interest</td>
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</tbody>
</table>

- **Flexibility** for line ministries through full carry-forward possibilities without earmarking
Medium-Term Expenditure Framework (MTEF)

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

Clear commitment to medium-term fiscal discipline,
in exchange for

increased flexibility and improved medium-term planning for ministries, since:

• unused funds at the end of the year may be carried forward to future periods (“December-Fever” stopped)
• same rules apply for receipts over budget during the current year
• no earmarking of these reserves

MTEF: survived the stress-test during the financial crisis
Austrian Federal Budget Reform - 2nd Stage

4 key elements

1. Result-oriented management of budget managing bodies
2. New budget structure: „lump-sum budgeting“
3. Performance Budgeting
4. Accrual accounting and budgeting

Leading motivation: improved budgetary decisions
Comprehensive input, output and outcome management
## 2nd Stage of Budget Reform – Overview

<table>
<thead>
<tr>
<th>System until 2013</th>
<th>New system starting in 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Accounting and budgeting: cash-based</td>
<td>• Accounting and budgeting: two binding perspectives: cash + accrual</td>
</tr>
<tr>
<td>• Budget structure: detailed legally binding appropriations (&gt; 1000)</td>
<td>• Budget structure: Legally binding global budgets (~ 70)</td>
</tr>
<tr>
<td>• Input-orientation</td>
<td>• Performance budgeting: incl. gender equality as integral part of the budget process on all levels of administration</td>
</tr>
</tbody>
</table>
## 2nd Stage of Budget Reform - Overview

<table>
<thead>
<tr>
<th>System until 2013</th>
<th>New system starting in 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>• budget discipline:</td>
<td>• budget discipline: incentives and penalties considerably strengthened</td>
</tr>
<tr>
<td>weak incentives and penalties</td>
<td></td>
</tr>
<tr>
<td>• no long term fiscal projection</td>
<td>• long term fiscal projection ( &gt; 30 years)</td>
</tr>
</tbody>
</table>

**Results:**

Comprehensive reform package implying huge cultural change for administration and politics.
2nd Stage of Budget Reform: Integration of Organisational, Budget and Performance Management Structures

Organisational Structure

Line ministry

headled by the minister

Budget Structure

Budget Chapter

Global Budget 1

GB 2

GB 3

GB 4

Performance Structure

Mission Statement; Outcome Objectives

Primary Activities

Primary Activities

Primary Activities

Primary Activities

* to achieve outcome objectives

Explanatory budget documents based on multi-annual performance mandate

Budget managing bodies

Detail Budgets
2\textsuperscript{nd} Stage of Budget Reform: New Budget Structure

Total Budget Headings

MTEF: 5 Headings

~ 30

enacted by Parliament

Global Budgets

1 - 5

binding within public administration

Detail Budgets

shown in the budget documents

Cost Accounting

flexible steering tool

Transparent budget structure as a prerequisite for other reform elements
2nd Stage of Budget Reform: Example Budget Structure UG 13 Ministry of Justice

Budget Chapter 13

Global Budgets (GB)

GB 1 Control + Services

GB 2 Jurisdiction

GB 3 Prisons

Mission statement
Outcome objectives

For each GB: Primary Activities

For each DB: further information for primary activities and outcome objectives in a special document

Budget Managing Bodies

Ministry of Justice

Detail Budgets (DB) 1. Level

DB 1 Strategy, Draft of laws

DB 2 Lawyer for patients

DB 3 Assistance for victims

DB 4 OLG Graz

DB 5 OLG Innsbruck

DB 6 Budget Control

DB 1 Prisons

DB 2 Probation assistance

DB 1 Highest appeal court

* Supreme Court
** Higher Regional Court
*** Directorate of Penal Affairs

OGH* OLG** Vienna OLG ** Graz OLG ** Linz OLG ** Innsbruck

Vollzugs-Direktion
2nd Stage as of 2013: Accrual accounting

Operating Statement
(direct linkage with federal cost accounting system)

Statement of Financial Position
(Balance Sheet)

Cash Flow Statement

Purpose: Providing relevant financial information

regulatory accounting framework oriented towards IPSAS
2nd Stage as of 2013: Accrual budgeting

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

Operating Statement
(direct linkage with federal cost accounting system)

Cash Flow Statement
2nd Stage of Budget Reform: Aims to be achieved with Performance Budgeting

1. Show which outputs and outcomes are to be achieved with underlying budget

2. Facilitation of priority setting for politics and subsequently in the public administration

3. Strengthened performance accountability for line ministries and budget managing bodies

4. Transparent presentation of results achieved by the public administration for the public and the Parliament

➡ The budget as a strategic policy instrument
Annual Budget Statement
as of 2013 per Chapter 1/2

Mission Statement:

<table>
<thead>
<tr>
<th>Cash Flow Statement</th>
<th>Ceiling MTEF</th>
<th>Budget n+1</th>
<th>Budget n</th>
<th>Actual n-1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipts</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Expenditures – fix ceiling</td>
<td></td>
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<td></td>
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<tr>
<td>Expenditures – variable ceiling</td>
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<tr>
<td>Total expenditures</td>
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<tr>
<td>Net cash balance</td>
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</table>

<table>
<thead>
<tr>
<th>Operating Statement</th>
<th>Budget n+1</th>
<th>Budget n</th>
<th>Actual n-1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
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<tr>
<td>Expenses</td>
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<tr>
<td>Net balance</td>
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</tbody>
</table>

MTEF = medium term expenditure framework
Outcome objective 1:

Why this objective:

What will be done to achieve this objective:

What would success look like:

- Max. 5 outcome objectives per chapter
- 1 outcome objective directly addressing gender equality
- Overall objective: Integrated view on budget and performance information
Annual Budget Statement as of 2013 per Global Budget 1/2

<table>
<thead>
<tr>
<th>Global Budget xx.01 Operating Statement</th>
<th>Budget n+1</th>
<th>Budget n</th>
<th>Actual n-1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues from operating activities and transfers</td>
<td></td>
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<tr>
<td>Revenues from financing activities</td>
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<tr>
<td><strong>Revenues</strong></td>
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<tr>
<td>Personnel expenses</td>
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<tr>
<td>Operating expenses</td>
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<td></td>
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<tr>
<td>Transfer expenses</td>
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<tr>
<td>Expenses on financial activities</td>
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<tr>
<td><strong>Expenses</strong></td>
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<tr>
<td>…variable expenses thereof</td>
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<tr>
<td><strong>Net balance</strong></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Global Budget xx.01 Cash Flow Statement</th>
<th>Budget n+1</th>
<th>Budget n</th>
<th>Actual n-1</th>
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<tbody>
<tr>
<td>Receipts from operating activities and transfers</td>
<td></td>
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<tr>
<td>Receipts from investment activities</td>
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<tr>
<td>Receipts from repayments of loans</td>
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<tr>
<td><strong>Receipts</strong></td>
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<tr>
<td>Personnel and operating expenditures</td>
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<tr>
<td>Expenditures from transfers</td>
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<tr>
<td>Expenditures from investment activities</td>
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<td>Expenditures from loans</td>
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<td><strong>Expenditures</strong></td>
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<td>…variable expenditures thereof</td>
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<tr>
<td><strong>Net cash balance</strong></td>
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</tbody>
</table>

Comment: On global budget level, total expenses (operating statement) and total expenditures (cash flow statement) are legally binding.
### Activities/Outputs (max. five incl. gender-activity)

<table>
<thead>
<tr>
<th>Contribution to outcome objective/s no.</th>
<th>What will be done to achieve the outcome objectives? Activities/Outputs:</th>
<th>What does success look like? Milestones/Indicators for n+1</th>
<th>What does success look like? Milestones/Indicators for n</th>
</tr>
</thead>
<tbody>
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**Comments on activities/outputs of the preceding budget statement, which are no longer listed in the present budget statement**

**Recent recommendation of the Court of Audit**

**Response of the ministry**
Gender Budgeting

- **Constitutional budgetary principle** as of 2013: Outcome orientation including *gender budgeting*

- **Integrated approach**: Gender dimension is considered on all budget management levels such as strategy report (medium term), budget chapters, global budgets etc.

  - Does not mean to allocate separate budgets for men & women

- **Implementation of gender mainstreaming in budgeting**:
  - Requires gender analysis
  - Definition of objectives (external/societal versus internal/ministry specific)
  - Formulation of activities in order to achieve the objectives
  - Monitoring
Impact-Oriented Budget Management – Definition of Roles

➢ **Line Minister:** responsible for performance budgeting & performance controlling on ministry level

➢ **Head of agency/budget managing body:** responsible for budget management of their “detail budgets”, implementation of measures to achieve performance objectives

➢ **Ministry of Finance:** defines the framework for impact-oriented budget management & performance budgeting

➢ **Federal Chancellery:** responsible for performance controlling on federal level

➢ **Court of Audit:** responsible for annual financial statements, audits, advisory role to the government. New: recommendations from recent audits on global budget level
### 2nd stage as of 2013: Performance Budgeting

<table>
<thead>
<tr>
<th>Medium-term: Macro level</th>
<th>Financial Management</th>
<th>Steering instruments/ parameters</th>
<th>Performance Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>MTEF</td>
<td>MTEF</td>
<td>Total Budget:</td>
<td>Strategy Report</td>
</tr>
<tr>
<td>Expenditure ceilings</td>
<td></td>
<td>Medium-term fiscal policy strategy</td>
<td>Commentates MTEF</td>
</tr>
<tr>
<td>for four years</td>
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<tr>
<td>on a rolling basis</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Annually: Meso level</th>
<th>Steering level</th>
<th>Per budget chapter: Mission statement, max. 5 outcome objectives</th>
<th>Annual Budget Statement with Performance Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Budget Statement</td>
<td>with Operating &amp; Cash Flow Statement</td>
<td>Per global budget: max. 5 primary activities</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Annually: Micro level</th>
<th>Annually: Detailed financial planning</th>
<th>Per detail budget: Practical implementation by means of multi-annual resource and performance plans (rpp) on a rolling basis</th>
<th>explanatory budget documents based on rpp</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating &amp; Cash Flow Statement</td>
<td>Exploratory budget documents</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Steering administrative units according to results

- Units receive global envelopes plus intended results and are responsible for achieving those results.

- Each unit receives a 4 year plan on a rolling basis that integrates resources and results.

- Incentives: unused funds are carried forward within the relevant unit; premiums for civil servants, if financial and performance goals are reached.

- Sanctions: if violations of budget regulations occur, Ministry of Finance can deduct the respective sum from the ministry’s envelope; line ministry is forced to accord projects with the Ministry of Finance on a reduced financial level.
Strategic approach in reform development and implementation

- Intensive study of other countries’ reform experience: Learning about do’s and dont’s, intercultural aspect to be considered

- Making the reform process irreversible: Key elements in constitutional amendments, detailed legislation at a later stage

- Reform design and implementation through own staff: Keeping external consultancies to a minimum, building and strengthening internal know-how

- Pragmatic reform design: Reducing complexity, less is more, no 100% perfectionist approach

- Ensuring a pilot phase for sufficient testing
The Austrian Federal Budget Reform

- is a comprehensive reform addressing the whole system and not only specific elements

- is more than a mere change of managerial, budget and accounting rules

- involves cultural change within the administration as well as on the political level (setting priorities, defining measurable objectives, transparent decision-making, etc.)
Thank you for your attention!

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