

BUDGET

REFORM

Putting tax money to effective use for citizens.

The Austrian Federal Budget Reform

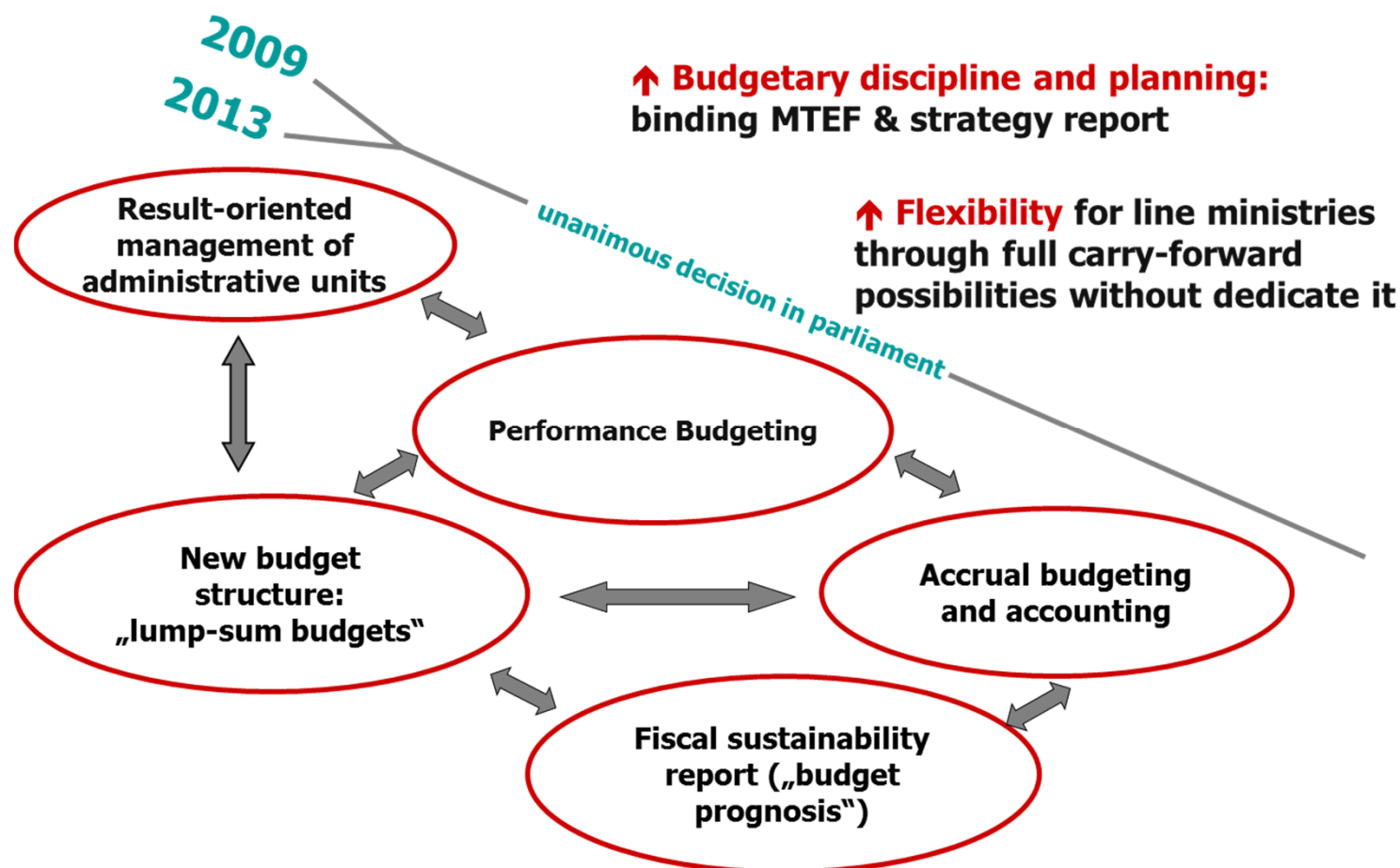
Vienna, February 2011

Why a reform?



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

Austrian Federal Budget Reform - Overview



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

Implementation: 2 Stages, 3 Legislative Amendments



Amendment of ...

➤ **Constitution:**
1st and 2nd stage:
Objectives, Tools, Principles

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

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

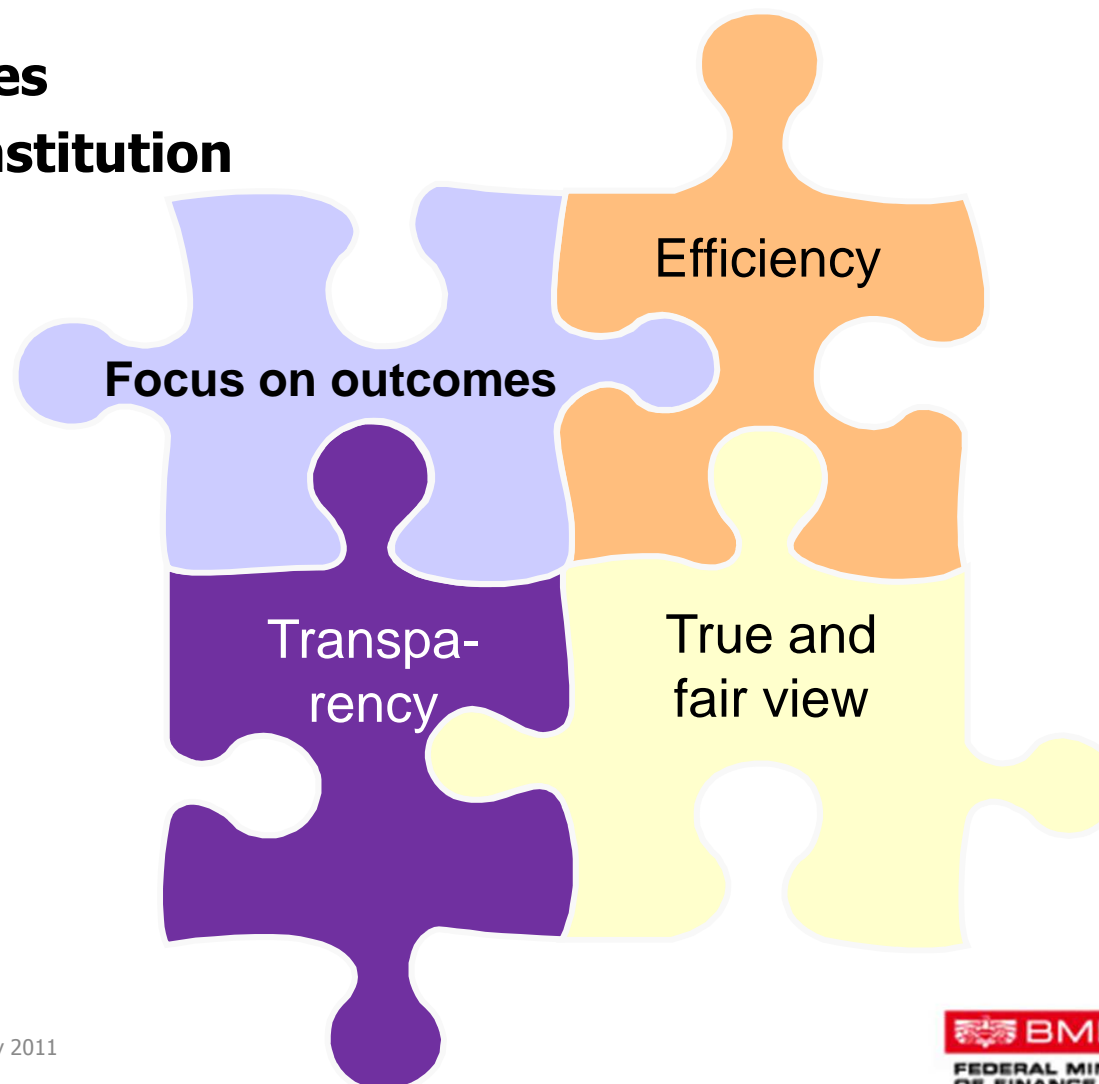
Unanimously
adopted in
Parliament
in Dec. 07

Unanimously
adopted in
Parliament
in Dec. 09

Austrian Federal Budget Reform – Legal Basis



Budgetary Principles in the Austrian Constitution



Budget Reform: 1st Stage as of 2009



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

Budget Reform: 1st Stage as of 2009



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

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

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

Medium-Term Expenditure Framework (MTEF)

- **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

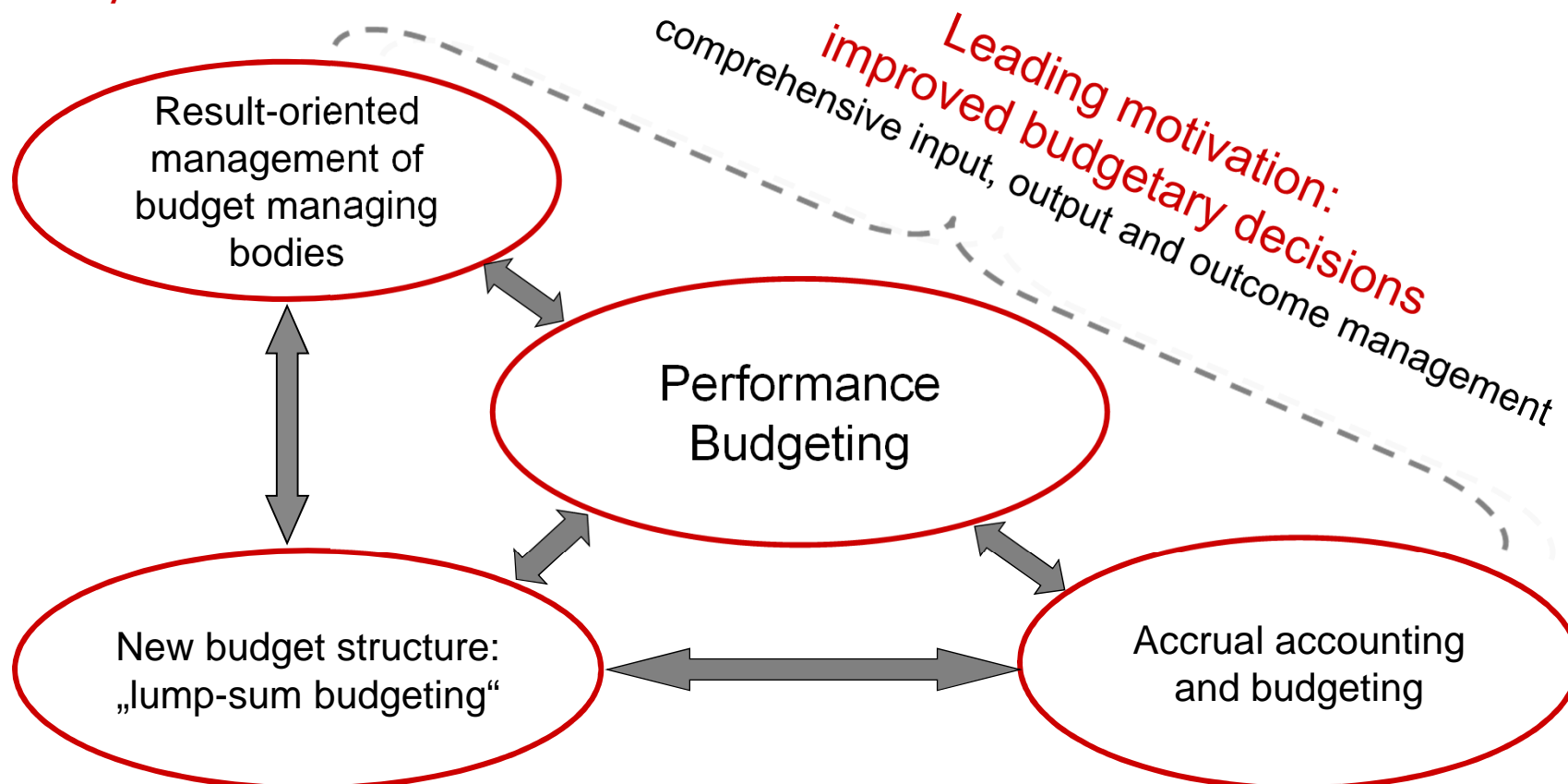
Win-Win-Situation for Budget Discipline and Line Ministries



- **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



2nd Stage of Budget Reform – Overview



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

2nd Stage of Budget Reform - Overview

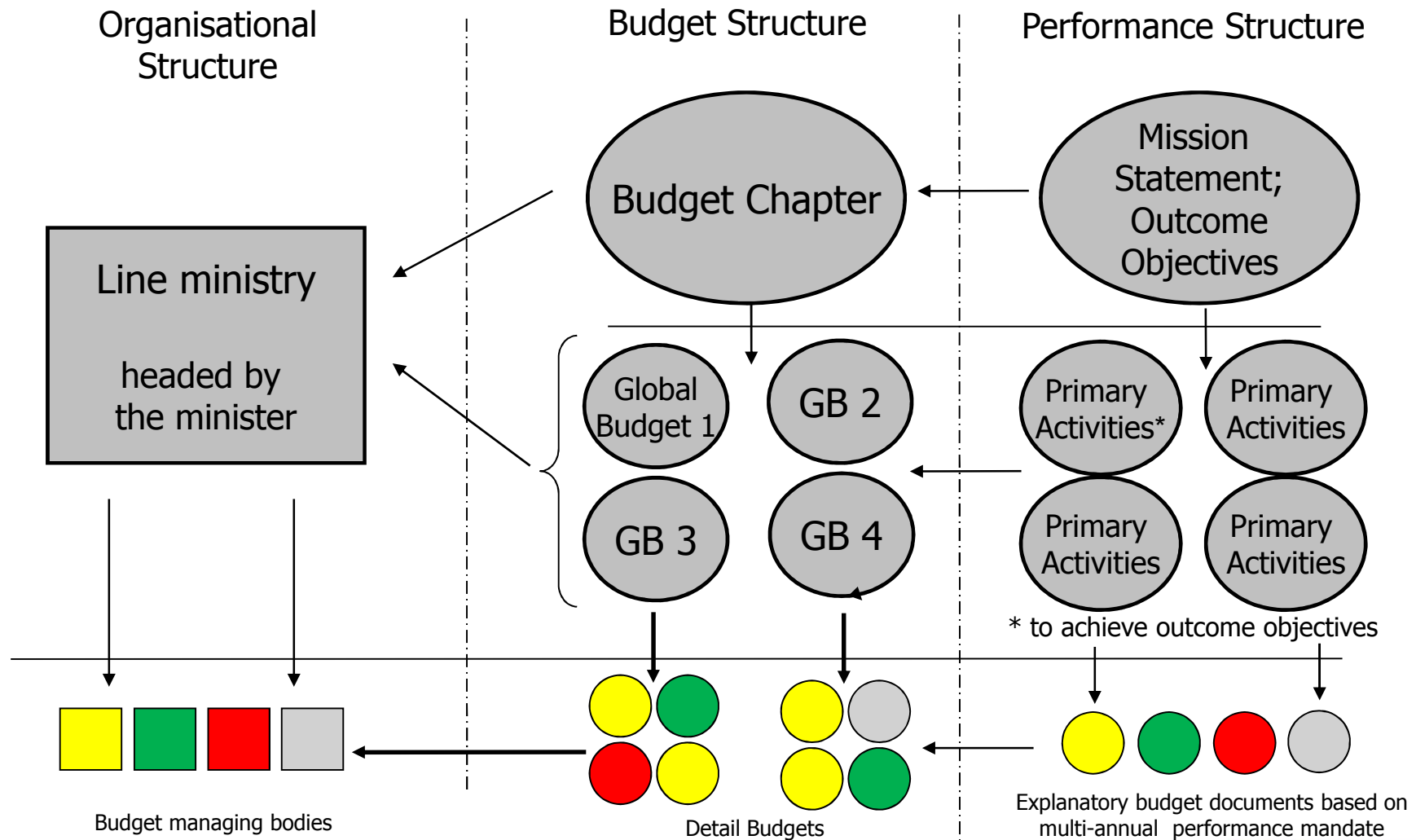


System until 2013	New system starting in 2013
<ul style="list-style-type: none">• budget discipline: weak incentives and penalties• no long term fiscal projection	<ul style="list-style-type: none">• budget discipline: incentives and penalties considerably strengthened• long term fiscal projection (>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

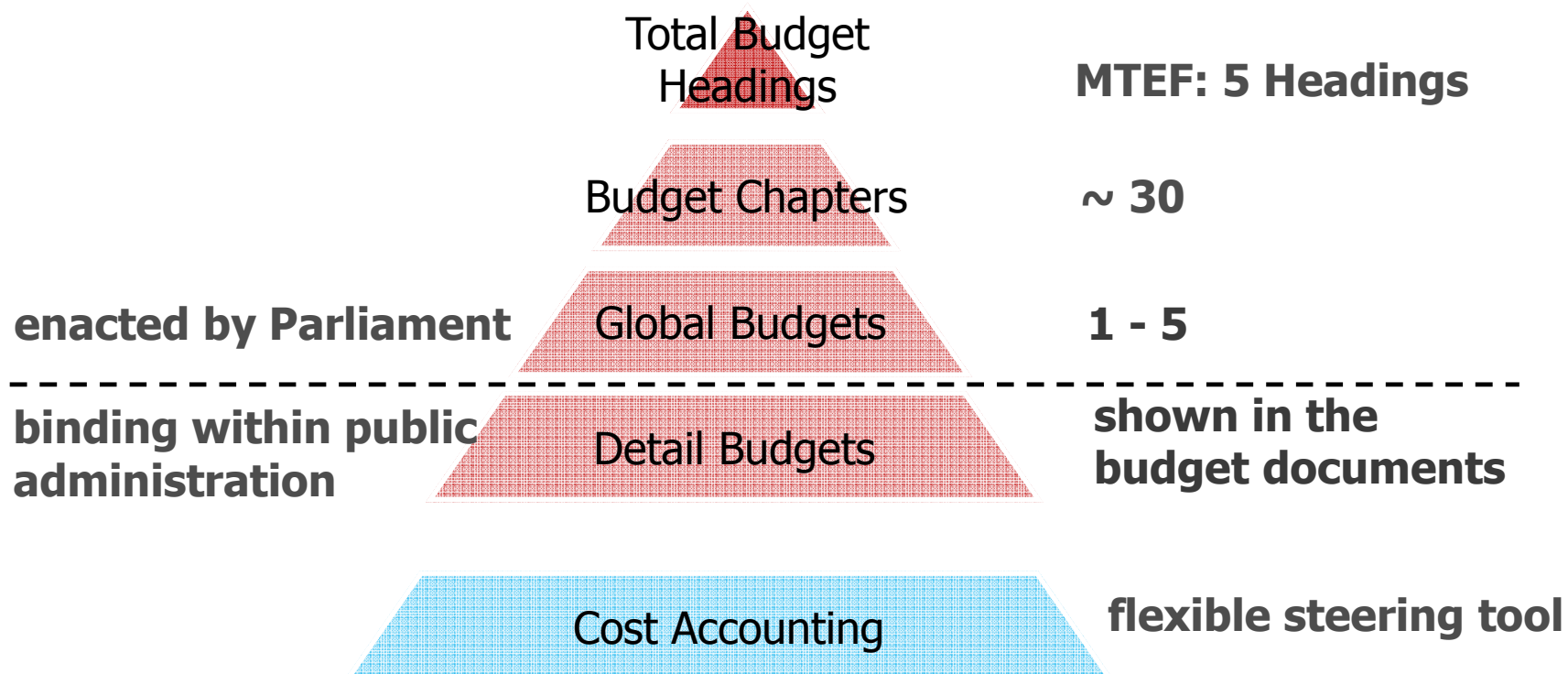
Results:

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

2nd Stage of Budget Reform: Integration of Organisational, Budget and Performance Management Structures

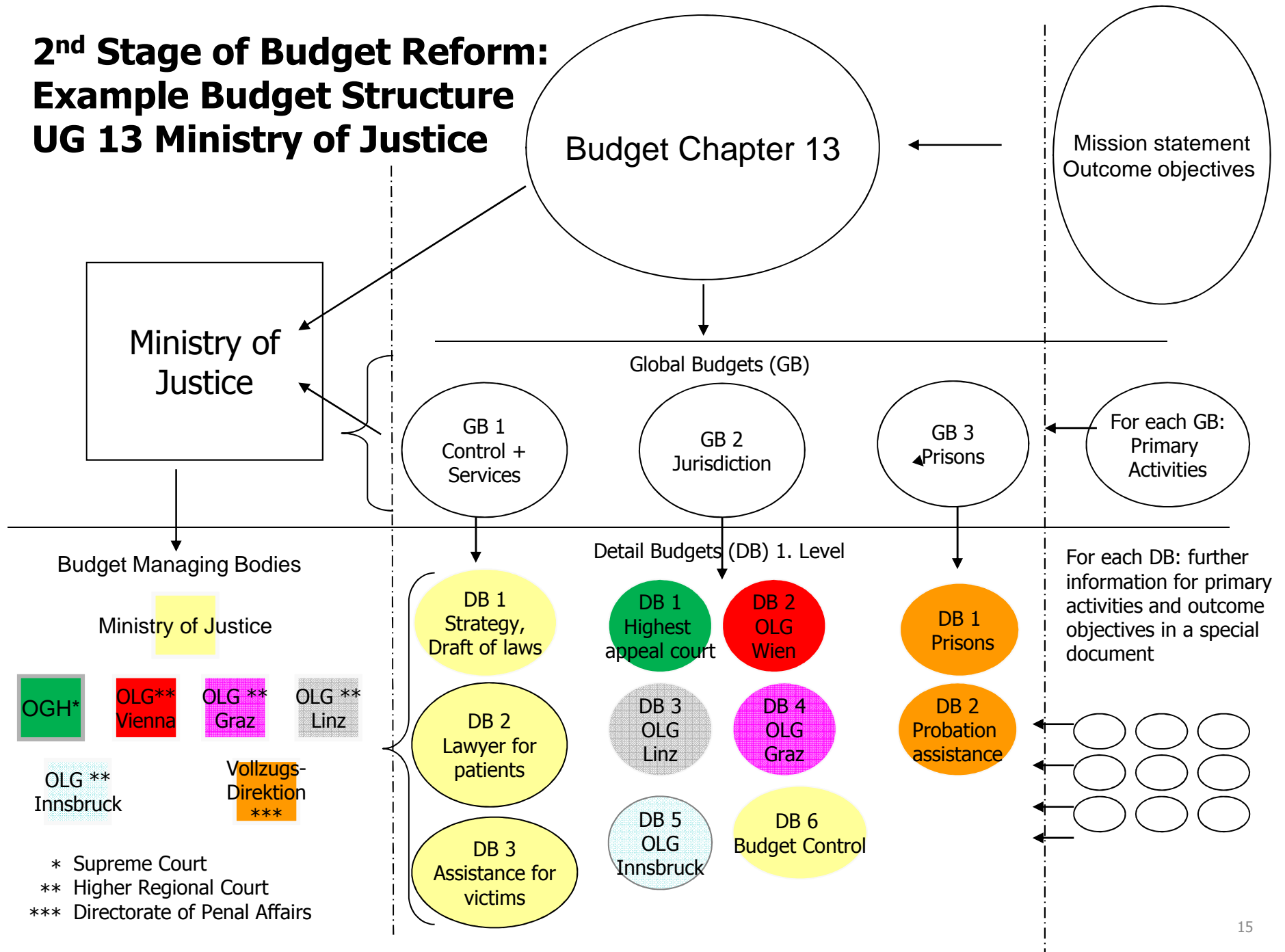


2nd Stage of Budget Reform: New Budget Structure

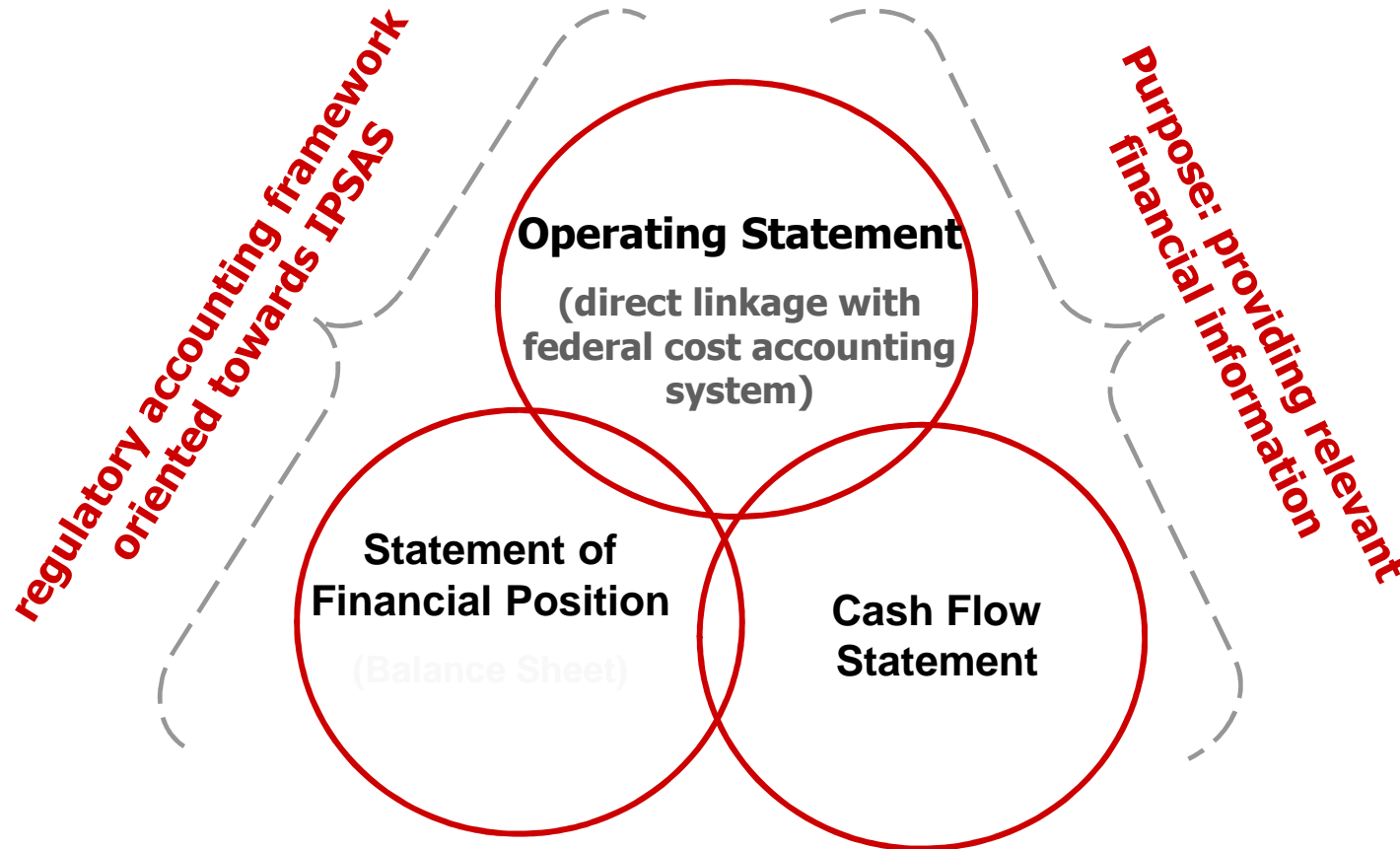


Transparent budget structure as a prerequisite for other reform elements

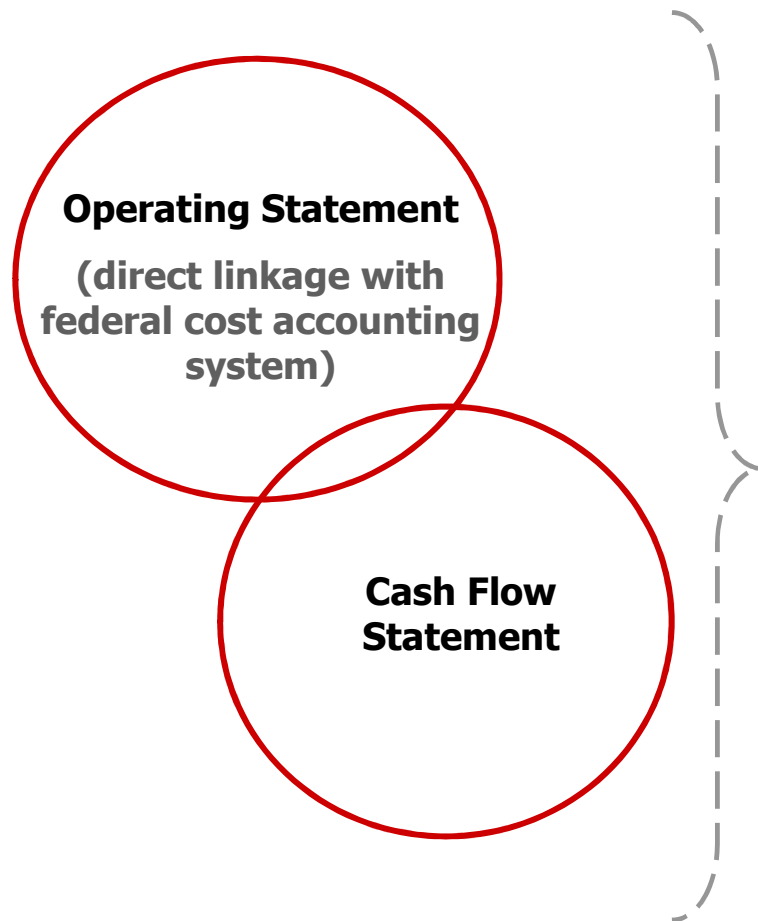
2nd Stage of Budget Reform: Example Budget Structure UG 13 Ministry of Justice



2nd Stage as of 2013: Accrual accounting



2nd Stage as of 2013: Accrual budgeting



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

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



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

Annual Budget Statement as of 2013 per Chapter 1/2

Mission Statement:

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



Legally binding

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

MTEF = medium term expenditure framework

Annual Budget Statement as of 2013 per Chapter 2/2



Outcome objective 1:

Why this objective:

What will be done to achieve this objective:

What would success look like:

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

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

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



Legally binding



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

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

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



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

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

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

Recent recommendation of the Court of Audit

Response of the ministry

Gender Budgeting

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

Impact-Oriented Budget Management – Definition of Roles



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

2nd stage as of 2013: Performance Budgeting

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

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

The Austrian Federal Budget Reform

- 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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