



# OECD Journal on Budgeting

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OECD Journal

# OECD Journal on Budgeting

Volume 2010/1

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ISSN 1608-7143 (print)  
ISSN 1681-2336 (online)

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## Foreword

**T**he OECD Journal on Budgeting is a unique resource for policy makers, officials and researchers in public sector budgeting. Drawing on the best of the recent work of the OECD Working Party of Senior Budget Officials (SBO), as well as special contributions from finance ministries of member countries and from other practitioners, the Journal provides insights on leading-edge institutional arrangements, systems and instruments for the effective and efficient allocation and management of resources in the public sector.

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# **Austria's Budget Reform: How to Create Consensus for a Decisive Change of Fiscal Rules**

by  
Gerhard Steger\*

*In December 2007 and December 2009, Austria's Federal Parliament decided on a far-reaching, comprehensive budget reform package. The introduction of a medium-term expenditure framework with legally binding expenditure ceilings, of accrual budgeting and accounting and of performance budgeting marks a decisive change, not only in steering the budget, but even more so 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.*

*JEL classification: H610.*

*Keywords: Austria, budget reform, fiscal rules.*

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## 1. How the Austrian budget reform emerged

Austria's public sector is comparatively large. General government revenues and expenditures as a percentage of gross domestic product (GDP) are well above the OECD average (OECD, 2009). 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 workforce (OECD, 2009). The expenditure of the sub-central levels of government amounts to three-quarters of the federal level (Fleischmann, 2005).

The federal administration is characterised 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 enterprises (Blöndal and Bergvall, 2007).

Up to the mid-1990s, budget formulation in Austria was very traditional, cash-based, highly legalistic and input-oriented. 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 a monopoly of classic, cash-based cameralistics characterised public accounting, important financial information was not available for steering the budget adequately. Therefore the budget administration within the 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 most important changes were the introduction of top-down budgeting (in the mid-1990s) and pilot projects to experiment with new forms of budget flexibility and performance information (starting in 2000). "Flexible agencies" (which remained part of the ministry and were not hived off) received a lump-sum appropriation per year, had the flexibility of virements within that lump sum and could carry forward most of the respective money if the financial results were better than planned. The appropriations of those agencies were defined several years in advance, together with performance indicators. The results of these pilot projects were very encouraging: the administrative and budget culture in the respective administrative offices improved considerably and civil servants were much more motivated than before. Although these pilot projects did not cover more than around 20 administrative offices 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.

Therefore the MoF decided to use this positive experience and merge that with an analysis of international examples of new fiscal rules to create a comprehensive steering model for the Austrian federal budget. As far as international examples were concerned, Austria gathered respective information mainly via the OECD Working Party of Senior Budget Officials. This network had considerable influence on the Austrian reform, as the international experience, both successes and failures, was a crucial source of inspiration for integrating lessons learned



in the Austrian model. Austria asked the OECD secretariat to write a country report on budgeting in Austria<sup>1</sup> and OECD staff was invited by Austrian authorities to present the results of the country report and additional OECD experience on fiscal rules reforms. This helped to persuade the Austrian government to stick to the reform process.

The MoF developed its reform model and discussed it afterwards with different stakeholders. The reason for this approach was obvious: proposals should structure discussion and foster the comprehensive character of the reform.

## 2. How stakeholders were brought on board

From the start of this broad reform initiative, it was obvious that it would take several years to develop and implement change. Therefore it seemed crucial to ensure that the reform would not depend on the then existing political constellation, but would survive different governments. Thus the reform process had to integrate all political parties represented in Parliament. A general political consensus was needed to keep the reform out of the political day-to-day quarrels, and the reform needed to be labelled as a modernisation project that would be supported by all relevant political forces.

For that purpose, an adequate forum was needed. Therefore, an informal parliamentary reform committee was established in autumn 2004. Experts and all political parties with representation in Parliament were integrated. The committee acted as a platform for discussion between the MoF and party representatives. While the MoF presented its ideas for the reform design, and later on, the detailed drafts for legislative amendments, the representatives of the parties discussed these suggestions and provided feedback to the MoF. In practice, the general reform design presented by the MoF 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, the 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 for the MoF) to Parliament and the creation of a Budget Office in Parliament that would support the Budget Committee with all aspects of budget decision and execution. Additionally, it was attractive for Parliament that the reform design of the MoF included detailed and regular performance information in the future annual budget bill. Therefore, Parliament's portfolio was substantially enriched. All in all, the informal parliamentary reform committee created a common reform spirit and established a direct line between MoF and Parliament, which was an important factor in backing the reform process.

Another important stakeholder in the reform process was the Court of Auditors (CoA). The MoF viewed itself and the CoA as “friends of the taxpayers” and ensured that the CoA was integrated in the informal parliamentary reform committee from the start and had the opportunity to add its perspective. As in the case of Parliament, the CoA benefited from additional levers and broadened its portfolio: the introduction of performance budgeting requires an institution to evaluate *ex post*, whether, and to what extent, the outcomes and outputs have been fulfilled. This is an important task for the CoA. In addition, the CoA gained the right to receive additional reports from line ministries and the MoF, and must be consulted in diverse budgetary matters. The CoA, which already had a strong influence on public administration and politics, obtained more opportunities to act and express its views. Like the Parliament, the CoA benefited from the budget reform.

Consequently, the CoA expressed its support for the reform in public and to Parliament, which was important in strengthening political acceptance of the reform.

As far as the line ministries were concerned, it was much harder gaining their approval for the reform. Traditionally, budget legislation guarantees the MoF a very strong role towards 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 has to achieve unanimity within the Council of Ministers, the MoF had to lobby hard. Three factors finally helped to reach unanimity:

- The reform offered some advantages for the line ministries: more flexibility both in budget preparation and execution (see details below), and the possibility to publicly present their efforts and work, with the introduction of performance budgeting.
- The fundamental decision to carry out the reform had been previously made on a constitutional basis in 2007 (see details below); therefore, there was no way back (“the bridges were burned”). The line ministries realised that at the end of the day their potential for resistance was limited.
- The MoF made a deal with the Chancellery: in return for their approval and promotion of the reform, the Chancellery was given a monitoring role in 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 role *vis-à-vis* ministers. This has not changed with the Austrian budget reform. Therefore, the Chancellery’s role is to monitor and support the methods, processes and results of outcomes and outputs, but it does not give orders to line ministers on their results.

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 to ensure that the steering of the budget and the steering of personal resources coincide. Therefore, the MoF and the Chancellery actively discussed making that happen in the future.

Another important stakeholder for budget reform is the public. Consequently, the MoF tried to persuade the public of the merits of the planned reform. The main target groups were scientists, journalists and foreign multipliers. As far as the former were concerned, the MoF informed them (especially professors for public management and accounting) regarding the reform ideas, solicited feedback and integrated tips that fit into the general framework. The aim was clear: the scientific community should contribute to the reform, and at the same time, to a positive public climate towards the reform. The MoF did not hire professors as consultants, but 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; and some discussions took place in public at conferences related to budget reform issues, where officials of the MoF were invited to present the reform design.

Budget reform is generally seen as a very technical issue, which is not easy to communicate to the media. This being said, the MoF tried to focus on aspects of the reform that were of potential interest to journalists. These efforts centred on a simple question: How would citizens experience the reform? What would change for them? Consequently,

the merits of good performance information were an important part of that exercise. Another was additional information on the financial situation of the country derived from accrual accounting and budgeting. The MoF organised special discussion meetings for journalists to present the reform ideas and to generate a positive echo in the media. These efforts succeeded to a certain extent. At one point, the reform process was at severe risk of grinding to a halt, and some news published articles in favour of the reform. This helped put pressure on sceptics within Parliament and the administration.

Foreign multipliers were another important target group. The aim at first was to use their experience for the Austrian budget reform. Secondly, it was hoped that foreign multipliers would create an interest in, and positive comments, on the Austrian reform. The respective feedback was used at home to underline the importance of the planned reform and to show that Austria could attract positive attention by moving towards a best practice example of steering the budget and the administration. As the MoF actively participated in the OECD Working Party of Senior Budget Officials, this was an excellent opportunity to gain access to relevant foreign multipliers. In addition, international congresses and bilateral contacts were used to broaden the basis for respective communication.

All in all, the MoF tried to create positive public awareness of the reform and to capitalise on a favourable climate to pass the reform package as quickly as possible through Parliament.

Last but not least, it was important to bring the civil servants on board. As broadly recognised, administration reforms can only survive if they are respected or – even better – endorsed by those who do the day-to-day work within an administration. Otherwise, even reforms with a strong legal basis can run the risk of being paralyzed once in practice. Therefore the MoF regularly tried to keep civil servants in all ministries informed regarding the reform design, its main elements and key details. 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 in particular. Citizens and taxpayers could better understand the merits of public service. This could positively influence the traditionally sceptical attitude towards civil servants in the Austrian public.

For a far-reaching reform to work in practice, a new administrative culture is necessary. It is the administrative staff that has to adapt; therefore, the civil servants had to be the agents of change. As a consequence, the MoF decided to rely on the huge expertise and experience of its administrative staff to design the reform. The basic assumption was that 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 helped design and implement the reform. Therefore there was no split of the staff between those who would do the routine budget work and those 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 steering budgets, recognising deficiencies, and knew effective ways to solve them quite well.

It was obvious that this approach motivated civil servants to engage in the reform process and to participate in constructing the new world. This was an important factor in the success of the sometimes very technical design of the reform machine.

Another important aspect with special regard to civil servants was to keep the involvement of consultants to a minimum. During the previous decade, consultants had been used often in the federal administration and the administrative staff was very sceptical. Civil servants had the impression that consultants would take the experience and ideas of the administrative staff and 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 consultants who would teach them what they didn't know. This created a strong defensive attitude among civil servants. Extensive use of consultants would have reduced the acceptance of the reform considerably.

Consultants were – to a very limited extent – used in two sectors: in the development of the accrual accounting and budgeting system and in the information technology (IT) implementation of the reform. But the whole design of the reform model and most of the practical development of the numerous elements of the reform was carried out by Austria's civil servants. This was much cheaper than the extensive use of consultants would have been.

In sum, the Austrian MoF was cognisant that it needed broad support from a wide range of stakeholders to pass the budget reform. Therefore, it developed a communication strategy that targeted the relevant stakeholders, showing them the relevant merits of the reform. Win-win-situations were created for the MoF and the relevant stakeholders. In the case of a stakeholder (typically a line ministry) remaining sceptical of the reform, the attitude was neutralised as much as possible. The strategy paid off: in December 2009 the new budget law was passed unanimously. All the stakeholders benefited and could claim victory in one aspect or another of the reform. This proved to be a key element in creating consensus on the Austrian budget reform: to build broad ownership towards this new steering mechanism for the budget and the administration.

### **3. How the Austrian budget reform was rendered irreversible**

The aim of the Austrian budget reform was to create a comprehensive package that would not only improve budgetary steering, 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 two elements of the fiscal rules: Austria needed a complete relaunch of the budget system. The budget of the future, based on a medium-term expenditure framework with legally binding expenditure ceilings as well as accrual accounting and budgeting, should become an integrated steering document, where the financial and personal resources and the outcomes and outputs for every ministry and every administrative unit within the ministry (dependent on a certain degree of decision-making powers) are shown in a transparent way (see details below).

The MoF assumed that such far-reaching changes could not be managed in one step. Consequently, two major stages were envisaged: the first would be implemented in 2009 and the second (that would add the most ambitious parts of the reform) was planned to come into force in 2013. Prior to that, intensive training for civil servants (2010), pilot projects to test the “new world” (2011) and a parallel use of the old and new systems (2012) were foreseen. It was hoped that the far-reaching changes in budgeting would be well prepared and the risk of practical failure would be substantially reduced.

Aware of the common risk in administrations to undercut reform and bring it to a halt, it was crucial to ensure that the reform process was completely implemented without losing momentum. But how do you realise that in a situation where lots of detailed legal

regulations were necessary to make the change really happen? The design and the decision 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 efforts to bring the reform process to a halt. 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 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, the MoF planned to change the constitution in a way that would make fundamental change inevitable by defining the core elements of the whole reform in the constitution. If this attempt succeeded, the necessary legal details could be designed and decided later without the danger of producing stranded investments and lots of frustration.

Backed strongly by the minister of finance and after intense discussions with the stakeholders mentioned above, the 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 to the constitution in the wake of national elections.

In 2007, the MoF tried again and was successful. Backed by an evolving spirit of common interest in the informal parliamentary reform committee and after several concessions to the opposition which changed details but not the design of the reform, Parliament passed both reform bills unanimously. This was a decisive victory for reform, because, as it would be proven in the discussions of 2009, the reform process was now irreversible. The unanimous vote in Parliament was a strong signal to the public and the 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 changes to the constitution focused on budgeting principles. The traditional budget principles of being economical, thrifty and useful were transformed into the four principles that would apply by 2013: i) outcome orientation; ii) efficiency; iii) transparency; and iv) true and fair view. Those four principles could not be put into practice by sticking to Austria's traditional budget system. For instance: a true and fair view of federal finances was not compatible with cash-based budgeting. Outcome orientation was not in line with the lack of performance budgeting.

This amendment to the constitution therefore marked a decisive change, not only in Austrian fiscal rules, but in steering the central government of Austria. The outcome-orientation principle enshrined in the constitution, in particular, had the potential to act as a catalyst for creating a new culture in politics and administration in favour of orientation on results. As will be shown below, this catalyst has already started to work.

Following the unanimous 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, the

Chancellery, the CoA, the informal parliamentary reform committee and the scientific community. Within the MoF, close co-operation 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 position of the MoF in planning and executing the budget. As mentioned above, this resistance was overcome in a political deal that was supported by the fact that an agreement had to be found because a new system had to be implemented according to the timeline in the constitution – the new budget process had to be operational on 1 January 2013. There was no way out. Intensive negotiations between the MoF and the Chancellery in late autumn 2009 resulted in an agreement that safeguarded the reform design and provided the Chancellery with additional responsibilities (mentioned above). As the heads of the political parties in government (one headed the Chancellery, the other the MoF) had an agreement, all the line ministries had to accept it. Thus, the draft budget law passed the Council of Ministers. After short but intensive negotiations between all parties represented in Parliament, a consensus was reached (see details above) and the unanimous decision was taken on 11 December 2009.

#### 4. The first stage of the Austrian budget reform

Based on an amendment of the budget law that was part of the 2007 reform package, the first stage of the Austrian budget reform was implemented in 2009. It consisted of two main elements: 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. The ceilings apply to groups of chapters (so-called “rubrics”). Each of the five rubrics has its own expenditure ceiling, which add to one ceiling for the federal budget. The five rubrics represent the following budget clusters:

1. Law and security (ministries for justice; interior; defence; foreign affairs; the 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. One is a nominal fixed ceiling, expressed in euros, which applies to most (75%) of the expenditure. The other is a variable ceiling that oscillates along defined parameters. This ceiling applies to expenditure related to the business cycle, and therefore ensures that the automatic stabilisers can work accordingly and exerts a countercyclical influence on the economy. Other applications of the variable ceiling are expenditure related to reimbursements from the EU, expenditure directly related to revenue (e.g. shares of value-added tax [VAT] for financing hospitals) or expenditure for guarantees. Variable ceilings therefore apply to 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 of the MTEF was presented to Parliament by 30 April 2009, accompanied by a budget strategy report that explained the budget priorities of the government. The debate on the MTEF in Parliament focused 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 is possible to change the expenditure ceilings only by amending the MTEF legally. In this case, the government has to go to Parliament and explain to the public why it wants to change the planning assumptions for the budget. The Parliament then decides on the requested changes.

In autumn 2009, the annual budget bill, which must respect the boundaries of the MTEF, was presented to Parliament, and contained the details for each chapter.

The MTEF with its legally binding multi-year approach helps the MoF and the line ministries to improve budget planning. While the MoF is interested in enforcing restrictive expenditure ceilings and sticking to them even in difficult times, the 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 the line ministries, as up to 2008 only in exceptional cases were they allowed to build reserves and these could only be used for their original purposes. In the reform discussion, the MoF always cited one principle, “Every minister his/her own finance minister.” The respective philosophy is clear: each line ministry should develop an interest in saving money. Each minister is in a position to finance special projects, which were not foreseen when the MTEF was decided on, via savings within the ministry’s envelope. This new flexibility for line ministries also allows ministries to treat certain (not all) extra revenue that exceeds the amount according to the budget planning, as reserves and use them. Therefore reserves (saved money or some extra revenue) are, by definition, part of the respective expenditure ceiling.

The year 2009 was certainly an excellent year for a stress test for the new Austrian MTEF. The financial crisis and its consequences for budgets around the world created lots of uncertainties and pressure for additional expenditure from lots of lobbies. At the end of the fiscal year 2009, it turned out that the MoF successfully defended the budget discipline. There were only a few redeployments within the budget, but the overall expenditure ceiling was not touched. This is certainly an important success for the Austrian budget reform. Even more, it turned out that line ministries were clearly cautious about spending all their money and built considerable reserves, even in the difficult year of 2009. The MoF, on the other hand, will save interest payments, as the reserves are financed when they are used and not when they are built.

This shows that the incentive “Every minister his/her own finance minister” works; the budget reform is starting to pay off.

## 5. The second stage of the Austrian budget reform

Based on the constitutional principles mentioned above, the main elements of the second stage of the Austrian budget reform that will come into force in 2013 are:

- 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 will introduce regular long-term fiscal projections that will cover at least 30 years in advance. By doing so, Austria adds a long-term perspective to the already existing MTEF. Although this long-term fiscal projection is not legally binding for the design of the MTEF, it will certainly have a strong influence on future MTEFs because a MTEF has to be consistent with a long-term perspective, which will be on the table every three years. Therefore, the projection will improve the budget planning process in Austria.

A new budget structure is seen as the necessary prerequisite for 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. Rubrics and chapters are kept from the first stage of the reform. But below chapters, the budget structure will change dramatically. Until now, more than 1 000 detailed appropriations have been legally binding for the execution of the Austrian federal budget. Transfers of funds between appropriations are allowed only in certain circumstances, defined in the budget law or in the annual budget bill. As recommended by the report of the OECD secretariat on budgeting in Austria (Blöndal and Bergvall, 2007), the reform will modernise and simplify the budget structure. Instead of many appropriations, a few “global budgets” will characterise the budget structure of each ministry. All in all, the number of legally binding entities will be reduced from more than 1 000 appropriations to less than 100 global budgets. Detailed budget information for the Parliament and the public will still be available, but figures at this “detailed budget” level will be indicative instead of legally binding. The results of this simplification of the budget structure will be obvious: more flexibility for the line ministries as they can redeploy funds within a global budget. On the other hand, the public will have a clearer picture of the budget, as the very technical and detailed appropriations will be replaced by global budgets that ring fence a budget cluster, which is easy to communicate to Parliament and the public. For instance, one global budget within the ministry of interior could focus on the police; another in the ministry of work and social affairs could concentrate on the labour market. The effectiveness and efficiency of the line ministries should be improved by creating close links between performance objectives, responsible administrative units and the respective budget structure.

To prepare the second stage of the Austrian budget reform in time, the line ministries have to define their future budget structure until spring 2010 with the consent of the MoF. The latter ensures that the budget structure is transparent and comparable across the federal budget. In the course of defining this future budget structure, it can already be observed that the new philosophy has started to work: discussions have emerged about how a ministry should be organised to fulfil performance goals in order to ensure that those responsible for a certain goal have the means to steer the respective resources. This “magnet field” of reform will exert a high influence on the future administrative organisation of the federal Austrian bureaucracy – far beyond fiscal rules and budget issues as such.

Traditionally Austria's federal budget is planned and executed on the basis of cash accounting. This will change according to the second reform stage. After intensively analysing foreign examples, the MoF successfully proposed to switch not only to accrual accounting, but also to accrual budgeting. The reason for this is simple: accruals should be relevant. This might not be the case if they are not used in budgeting. If accrual accounting is to become a management instrument rather than a mere pool of information, it has to be combined with accrual budgeting.



As to the accounting system, Austria will in most cases be consistent with the International Public Sector Accounting Standards (IPSAS), but will not implement all of them. The MoF advocates a pragmatic approach that looks at the real advantage of any standard and does not hesitate to deviate from IPSAS, if the respective standard does not seem useful in practice or introduces the risk of too much complexity or bureaucracy. An important aspect of the new accounting system is to integrate the already existing cost-accounting system into the budgeting framework. So the cost-accounting system will have harmonised definitions of cost with expenses as such. In addition cost accounting will be 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. Accounting standards are set by the MoF with the consent of the CoA.

As far as accrual budgeting is concerned, Austria's federal budget will consist of a cash flow statement and an operating statement, both of which will be integrated in the annual budget law. Non-cash expenses, such as depreciation, will be part of the budget so they can be managed at all stages of the budget cycle and are no longer beyond decision making.

The cash statement will be derived from the operating statement. Therefore both perspectives – use of cash and use of resources – will be available for steering the budget properly. A balance sheet will be drawn up by the CoA in the course of the annual accounts.

## 6. Performance budgeting

As mentioned previously, outcome orientation will be a constitutional principle in Austria as of 2013. The implementation of that element is a crucial part of the budget reform. The budget will develop from input orientation towards a comprehensive steering document of resources and performance. When the MoF designed the second stage of the budget reform, it analysed foreign examples of performance budgeting (see OECD, 2007). As a result, it concluded that the new system should be lean (avoid a “performance bureaucracy” and concentrate on the most relevant aspects), sustainable (goals and indicators should remain constant to be able to monitor developments over a longer period of time) and relevant (integrate performance goals and indicators in the annual budget bill).

The Austrian performance model is based on the following elements:

- As far as the MTEF is concerned, the accompanying budget strategy report will refer to outcomes of the line ministries and the strategies to make them happen within the respective four-year period.
- In the annual budget bill, the performance information will 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. In the budget, each outcome has to be justified and explained very briefly, answering three questions: Why has this outcome been chosen? How will it be achieved? What is the benchmark for its success?
- On the level of global budgets, a maximum of five outputs has to be defined, which are part of the budget decision as well. Again, the three questions mentioned above are in place. To make sure that every person who deals with the budget is aware of the potential for improvement in the relevant global budget, the CoA may add a very brief

summary of its recommendations for that global budget. The line ministry in turn has the opportunity to comment on that recommendation. Therefore the Parliament and the public find three basic types of information in the budget: resources, outcomes and outputs, recommendations of the CoA. This provides a comprehensive overview of what is going on in each global budget.

- On the level of detailed budgets and their responsible administrative units, a plan or a mandate integrating resources and performance objectives for the relevant administrative unit is obligatory. The plan covers four years in advance and is therefore congruent with the time horizon of the MTEF. Although this plan is an internal document within a line ministry and will not be published, the substance of the plan 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 the issue seriously, several watchdogs are in place. Parliament has to decide on outcomes and outputs, which are, as mentioned previously, systematically integrated in the budget bill. As the current discussions in the informal parliamentary reform committee for the budget reform show, it can be expected that Parliament will watch the performance results very closely. The CoA evaluates the outcomes and outputs *ex post* and publishes the results. In Austria, the reports of the CoA receive a lot of public attention, which will contribute effectively to the relevance of performance budgeting. The Chancellery will monitor line ministries and provide support and advice to cope with this new performance culture. However, it does not have the power to give orders to the line ministries. At the end of the day, they are solely responsible for their outcomes and outputs and will earn either praise or criticism for the results. Therefore, it is obligatory for the line ministries to establish an internal control mechanism for their performance goals.

An important aspect of performance budgeting in Austria concerns gender equality. In the constitutional amendment of 2007, gender budgeting was explicitly named as an obligatory dimension of performance budgeting. The constitution states that the 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 levels of the performance budgeting system: at least one outcome per chapter should deal with gender matters. The same applies for at least one output per global budget.

## 7. Mechanisms to foster performance and budget discipline

As discussed in the previous section, watchdogs should ensure that performance budgeting is taken seriously and that an obligatory plan is put in place to integrate resources and performance results per administrative unit so as to spread the spirit of performance budgeting in all administrative units of the federal government. But watchdogs and obligatory plans are not the only mechanisms to support a new performance culture. Additional leverage will be created through premiums for civil servants if the obligatory plan is accomplished. One may question whether money really helps to foster performance and budget discipline; premiums are certainly a tricky issue.<sup>2</sup> In Austria, however, the flexible agencies mentioned in the first part of this article have proven that premiums can contribute to the positive motivation of administrative staff if the awarding process is transparent and results are reasonable.

The Austrian budget reform aims at generating an innate interest in 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 (“Every minister his/her own finance minister”). In the second stage of the reform, this opportunity is extended to the administrative units in the federal governments. This was inspired by the success of the flexible agencies allowed to do this since 2000. It was observed that, on average, around 10% of the resources were saved. Therefore, 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, the line ministry decides each year which administrative units are eligible for which resources. 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. In any case, the new philosophy works on the condition that those who decide on resources for others are committed to awarding good financial performance.

Unfortunately, budget mechanisms do not work solely on awarding good behaviour. Experience shows that sanctions are necessary to prevent free-riding on the expense of others. Until now, the federal budget law lacks effective sanctions. This will change as of 2013. One of the most intensely discussed items was the MoF’s suggestion to introduce biting sanctions into the budget law. The MoF argued that if the line ministries are granted more flexibility, there has to be a “fire brigade licence” for the MoF should someone break the rules. The line ministries fought this fiercely, but in the end, the MoF succeeded to a large extent. The new budget law includes the following sanctions:

- Violations of the budget law will lead to less financial flexibility for the relevant administrative unit. In this case, the financial limit, where the consent of the MoF for an expense is necessary, is reduced by 50%.
- If money is spent in violation of the budget law, the MoF is obliged to cut the resources for the respective budget chapter accordingly.
- In the case of other violations against budget regulations, the MoF may cut the relevant budget chapter up to 2% (with a maximum amount of EUR 10 million).

## 8. The Austrian budget reform: Still to do

No reform covers everything and the Austrian budget reform has its deficiencies. The most important one is that the reform only covers the federal level, and not the sub-national levels.<sup>3</sup> In a federalist country, this is a big point on the to-do list for the future. Originally the MoF planned to integrate all levels of government, but the regions were not willing to participate and lobbied successfully against their integration in the reform process. Nevertheless, if the budget reform proves to be successful in practice, it will be very difficult for the regions and communities to not join the reform as public pressure will certainly exert a considerable influence. The only aspect that applies to all levels of government is gender budgeting. This may be seen as a good start for a broadening of the reform process.

A second deficiency refers to the accounting system: hived-off entities still will not be consolidated after the reform. This proved to be too complex to deal with in the course of the current budget reform and will be another item on the to-do list for further reform.

## 9. Conclusions

Austria has come a long way since its first budget reform steps in the mid-1990s to the parliamentary budget reform decision in 2007 and 2009. A considerable way lies ahead to implement all the budget reform elements and to make the cultural change in the Austrian administration really happen. This highlights that fundamental budget reforms take a lot of time and energy – and are certainly never completely finished.

The Austrian budget reform is a comprehensive approach that not only changes specific elements of budgeting, but transforms the budgeting machine decisively. Furthermore the reform not only relates to fiscal rules: it deals with resources *and* with performance and combines both perspectives. The budget therefore changes its character. It not only steers the allocation of money, but moves towards an integrated steering document for resources and results. This 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 may not only change the administrative, but also the political, culture in this country. In the future, ministers will have to decide on their priorities and to communicate them in a transparent and binding way. Members of Parliament will have to vote not only on resources, but on defined performance results at the same time. This will curb and structure the political debate about the future of the country and hopefully strengthen the strategic dimension of policy making in Austria.

The Austrian budget reform therefore has implications, not only for the administration, but maybe even more for the political landscape. The hard factor of the reform was completed successfully: the constitution was amended and the new budget law was passed. The success of the reform will now strongly depend on a soft factor: the necessary cultural change in politics and administration. It will be the task of the politicians and public managers to interact with the new system in practice. As the Austrian reform process up to now has managed to grow stronger and stronger, and is still gaining momentum, one may take that as a hopeful indication that this reform will reach its goals.

### Notes

1. Published in the *OECD Journal on Budgeting*; see Blöndal and Bergvall, 2007.
2. The experience of the author would suggest that the most important motivation for civil servants is not premiums, but a positive climate at the workplace, the esteem they get from others and the opportunity to make decisions for which they are personally responsible.
3. It should be mentioned, however, 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 budget balances of the different levels of government, but not on fiscal rules like a MTEF or on performance results, nor on accrual budgeting.

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OECD PUBLISHING, 2, rue André-Pascal, 75775 PARIS CEDEX 16  
PRINTED IN FRANCE  
(42 2010 01 1 P) ISSN 1608-7143 - No. 57379 2010

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ISSN 1608-7143

VOLUME 2010

(3 ISSUES)

42 2010 01 1 P 9



771608 714002