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**FEDERAL MINISTRY
OF FINANCE**

The Budget Reform as a Transition to a New Budget World

BUDGET

REFORM

Putting tax money to effective use for citizens.







Introduction

The Austrian federal budget reform makes extensive changes to the content and processes of the Austrian federal budget. A significant improvement in the budget management tools available to the federal government creates much greater trans-

parency with respect to the financial position of the federal government. The budget reform was implemented in two stages, the first stage as of 1 January 2009 and the second stage as of 1 January 2013.

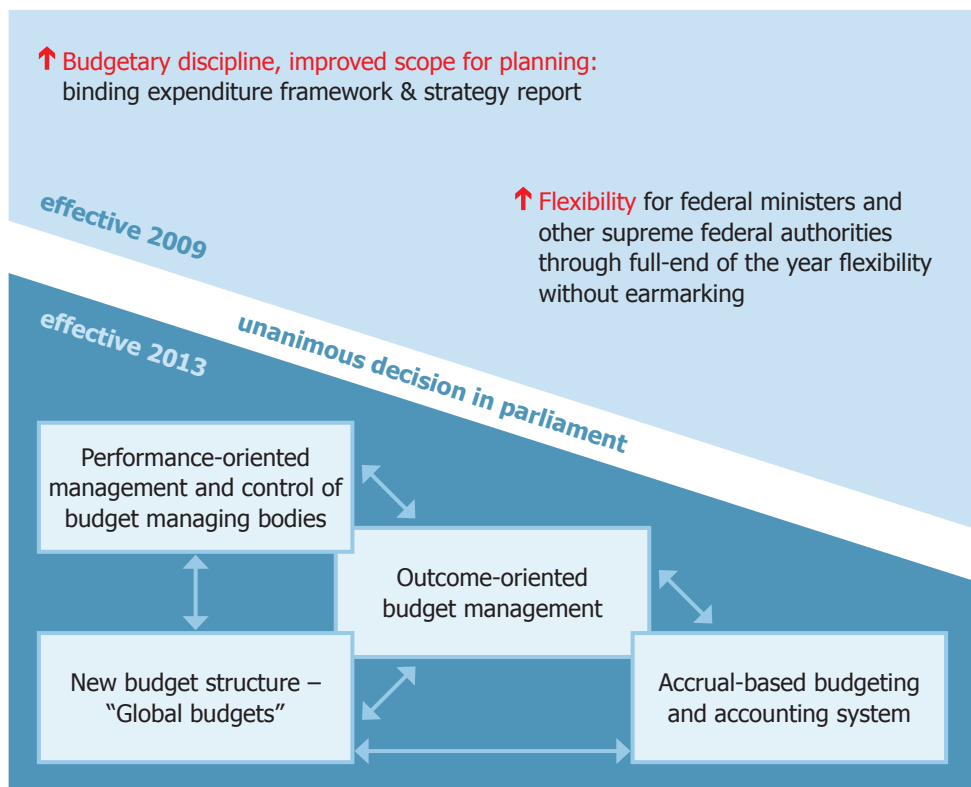


Figure: Overview of the key points of the 1st and 2nd stages of the Austrian budget reform



The 1st stage of the budget reform

The 1st stage of the budget reform entered into effect on 1 January 2009, and introduced a medium-term expenditure framework as a key tool for budget management, together with a strategy report. At the same time, departments are able to retain unused budget funds, thereby creating an incentive to conserve tax revenues.

► Federal medium-term expenditure framework

The new Federal Medium-Term Expenditure Framework Act (BFRG) makes medium-term budget planning possible for the first time. The Federal Medium-Term Expenditure Framework Act stipulates binding statutory expenditure ceilings for four years into the future under five “headings” (Law and security; Labour, social affairs, health and family; Education, research, art and culture; Economy, infrastructure and environment; Cash and interest). These headings represent clusters of related major areas of political responsibility of the federal government.

Heading	n+1	n+2	n+3	n+4
0,1 Law and security				
2 Labour, social affairs, health and family				
3 Education, research, art and culture				
4 Economy, infrastructure and environment				
5 Cash and interest				

Chart: The headings in the Federal Medium-Term Expenditure Framework Act

The ministers receive the budgets for their departments from these headings. They are also subject to binding expenditure ceilings, and there is an upper limit on the number of personnel that may be employed by each department.

These binding, rolling, four-year budget plans with upper limits on expenditures and personnel under the Federal Medium-Term Expenditure Framework Act have greatly increased the importance of medium-term planning by the federal government.

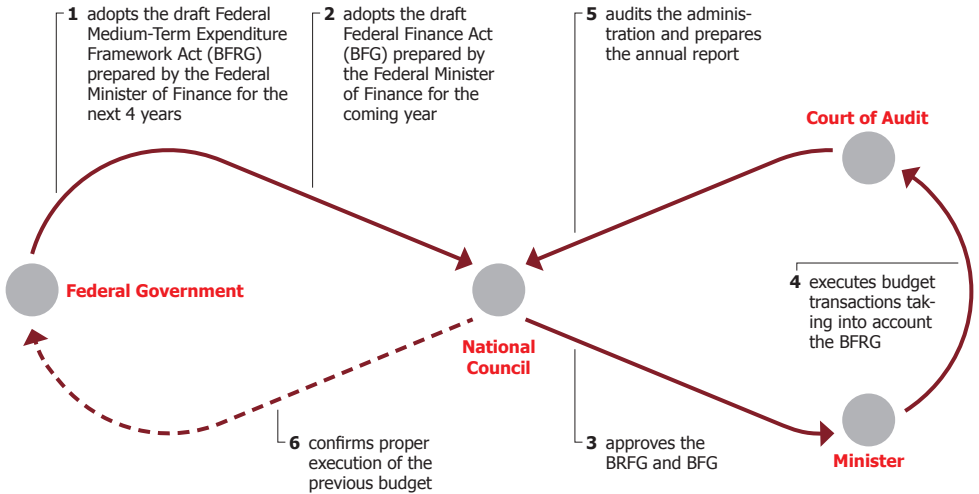


Figure: ideal-typical budget cycle

The Federal Medium-Term Expenditure Framework Act is accompanied by a strategy report that informs the public about the Federal Medium-Term Expenditure Framework Act and its main budgetary and economic policy objectives, provides an overview of the economic situation and expected changes to the economic situation, and presents the federal government's political priorities and main areas of expenditure. In addition to a discussion of target objectives, strategies and outcomes at the level of the headings and chapters, the strategy report also includes discussion about gender budgeting and gender equality objectives.

➤ Incentives for efficient use of funds

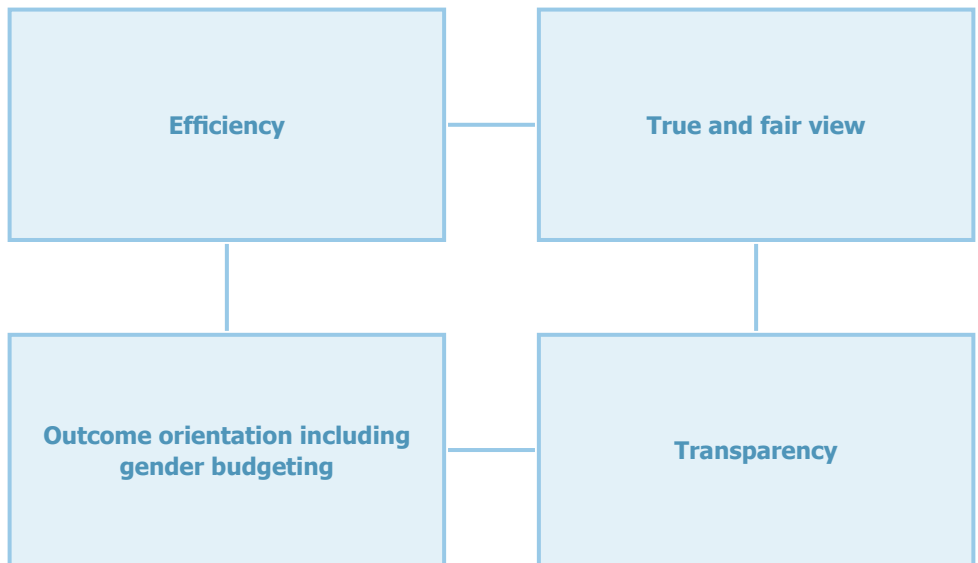
Another change brought about by the budget reform was the introduction of a new reserve system that permits flexible budget management. Federal ministers may transfer unused financial resources and additional revenues to reserves and use them in following years, generally with no restriction on use. This works against "December fever" (complete spending of budget funds at the end of the year) and creates a major incentive to conserve tax revenues. Financing is not provided until the financial resources are actually used.

The 2nd stage of the budget reform

➤ The new principles of budget management

The 2nd stage of the budget reform entered into effect on 1 January 2013. A unanimous decision by the Austrian National Council anchored the new

outcome-oriented budget management principles in federal constitutional law, namely the principles of gender equality, transparency, efficiency and a true and fair view of the financial position of the federal government.



True and fair view of the financial position of the federal government

The principle of a true and fair view of the financial position of the federal government

concerns the state of the budget, settlement and operational system in the widest sense. This also includes budget accuracy, under which budget funds are to be budgeted as precisely as possible.



The principle of a true and fair view of the financial position of the federal government was implemented by introducing integrated cash flow statements, operating statements and statements of financial position. The implementation was based on the International Public Sector Accounting Standards (IPSAS), and a large proportion of the IPSAS standards relevant to Austria were applied.

➤ New budget structure

The budget reform made fundamental changes to the budget statement, and consequently the entire budget structure. The total budget, representing the total budget of the federal government, is divided into headings, chapters, global budgets and detail budgets.

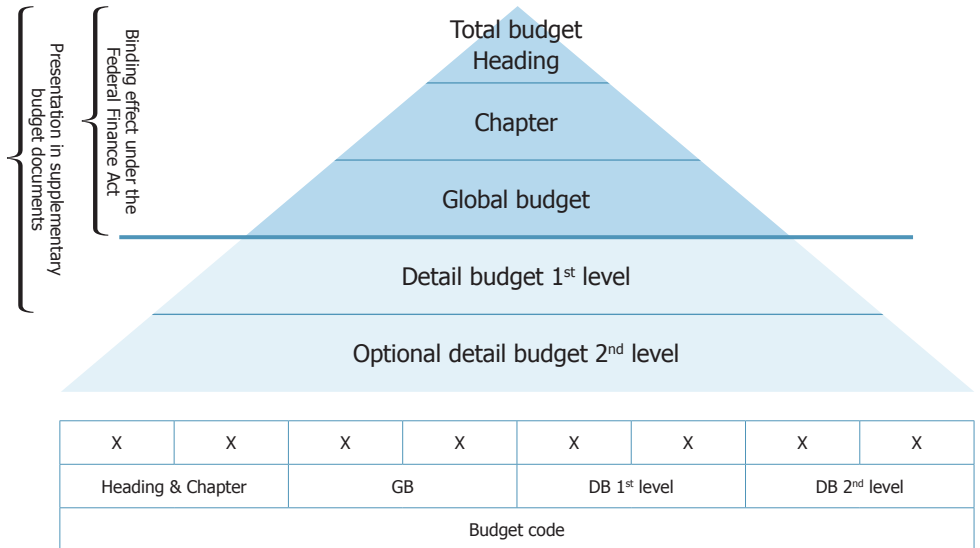


Figure: The new budget structure

The new budget elements provide a clearer view of the budget and greater flexibility, and organise the budget more along subject-matter lines.

The five headings of the federal budget are divided into chapters based on the matters to be dealt with. A chapter is a budget area that combines items concerning the same

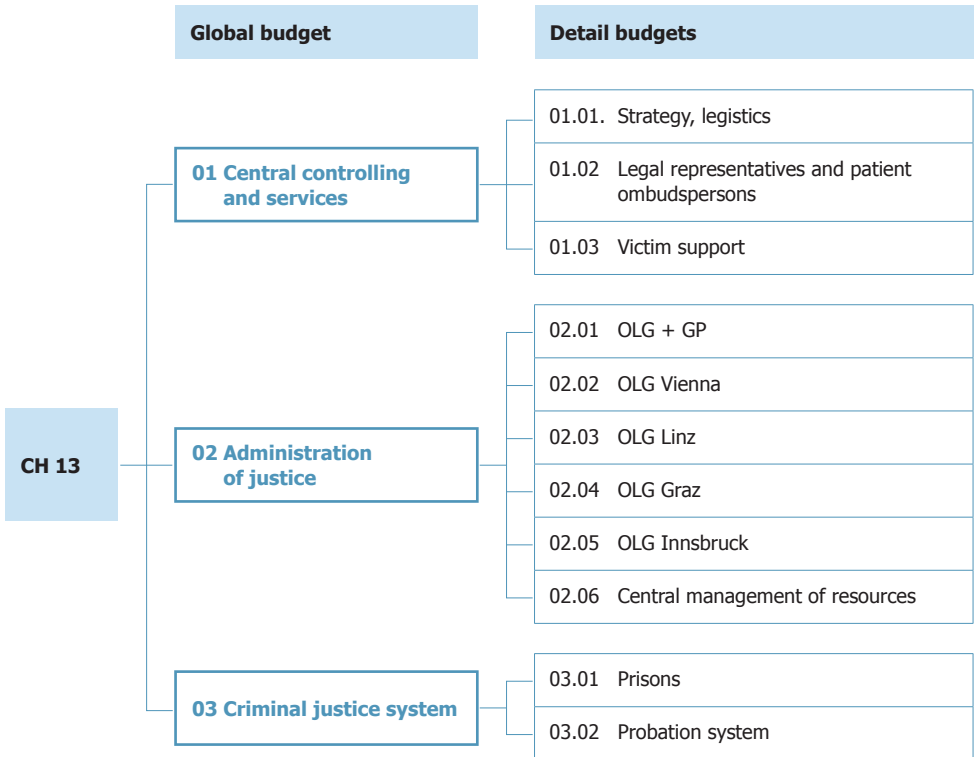


Figure: Example budget structure for the Federal Ministry of Justice (Chapter 13)
 (CH = Chapter, OGH = Supreme Court of Justice, OLG = Higher Regional Court of Appeal, GP = Procurator General)



subject matter. Chapters are, for example, law, labour, education and the environment.

The chapters are fully divided into global budgets according to subject matter.

A global budget (GB) is below a chapter in the hierarchy and is an administrative area or area of responsibility concerned with a particular subject matter. Global budgets are subject to a statutory binding effect. Each global budget is, in turn, fully divided into detail budgets.

Detail budgets (DB) are formed at the operational level for the purposes of decentralised budget management.

➤ New accounting system

As part of the budget reform, the Austrian Federal Organic Budget Act 2013 (BHG 2013) creates a fundamentally new, transparent form of accounting for the federal government based on double-entry bookkeeping. The new accounting system takes account of the special needs of the federal government and is based on the International Public Sector Accounting Standards (IPSAS).

The new budget principles and the principle of accrual accounting applied to the budget result in the following key points of the accounting system:

- Transparency with respect to the financial position, financial performance and cash flow situation of the federal government and its subunits
- Improving the readability of budget and annual report documents by using a similar structure
- Better management in two areas: resource use and cash (liquidity) management
- Linking the budget to cost accounting so that the cost accounting can be used for budget planning
- Strengthening the budget responsibility and flexibility of the departments
- Strengthening the budget responsibility of the budget managing bodies

Operating statement and budget based on the operating statement

The operating statement and budget based on the operating statement presents revenue and expense items. The operating statement and budget based on the operating statement consists of the operating statement together with the budget based on the operating statement.

Federal budget

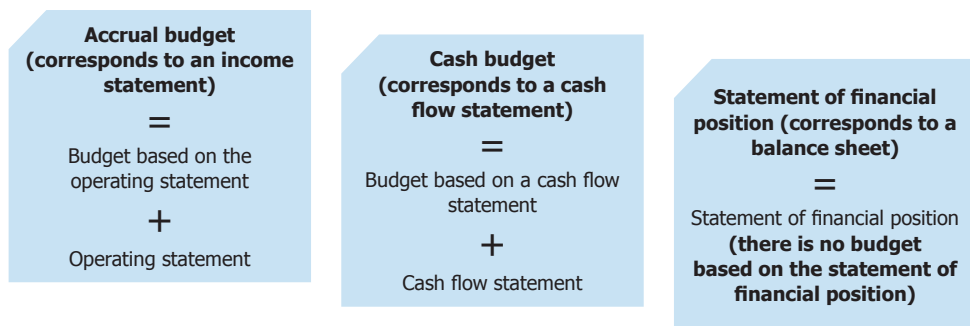


Figure: Elements of the new federal government budget and accounting system

Cash flow statement

The cash flow statement records receipts and expenditures. The cash flow statement and budget based on the cash flow statement consists of the cash flow statement together with the budget based on the cash flow statement.

Receipts and expenditures are recognized at the time of the payment.

➤ Outcome-oriented budget management

Outcome-oriented budget management is based on two elements: presentation in

the budget and outcome-oriented assessment of consequences for legislative measures and large planned measures.

Outcome orientation in the budget

The budget reform reoriented budget management to the achievement of objectives and outcomes.

The public learns about the outcome objectives of the individual ministries and the activities they use to achieve them. Parliament therefore specifies the major priorities of the ministries and budget managing bodies in the form of objectives and activities. This allows the administration to be managed with an outcome orientation –

the administration has greater freedom in the use of resources, while at the same time being responsible for achieving the objectives.

- Max. of 5 outcome objectives per chapter
- If possible, at least 1 outcome objective per chapter derived directly from the gender equality objective (gender budgeting)
- Objective: Overview of financial resources and outcome information

Outcome-oriented assessment of consequences

Outcome-oriented assessment of consequences presents the objectives, activities and outcomes of laws, regulations, supra-national and international agreements, agreements with the Austrian states, other legislative measures and large planned measures. An in-depth assessment presents, among other things, the financial effects, the effects on gender equality, the environment, social affairs and business.

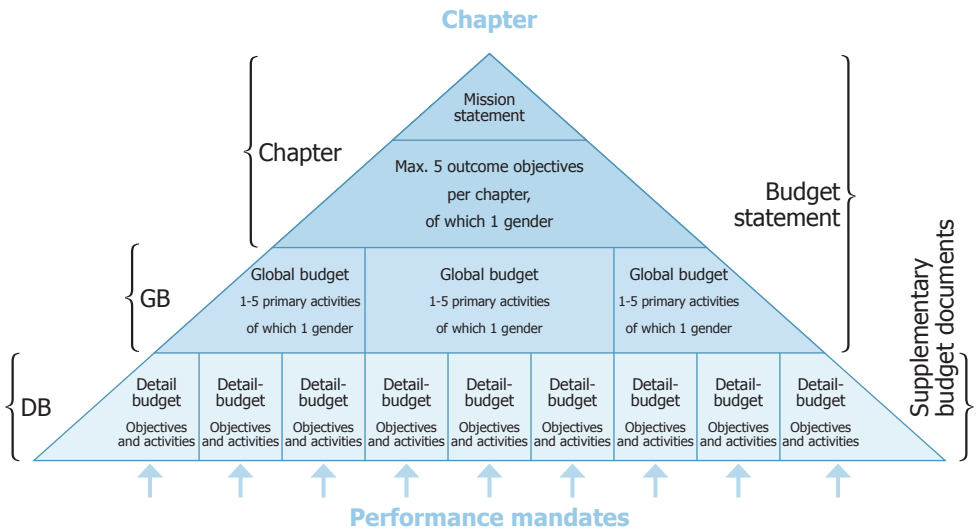


Figure: Outcome-oriented objective hierarchy starting as of 2013

Examples of outcome objectives¹

Chart: Austrian Federal Finance Act (BFG), Annex I, Chapter 30

Chapter 30 Education and Women's Affairs

Mission: The Federal Ministry of Education and Women's Affairs is responsible for

shaping the framework for comprehensive education, with the level of education and equality of opportunity and gender equality as key strategic areas of action. The Federal Ministry of Education and Women's Affairs is also responsible for coordinating the federal government's political strategies for women's affairs and gender equality.

Budget based on the cash flow statement-general budget transactions	Ceiling MTEF	Budget 2015	Budget 2014	Actual 2013
Receipts		81.877	82.611	94.202
Expenditures – fixed	7,992.673	7,992.673	8,078.703	8,516.372
Total expenditures	7,992.673	7,992.673	8,078.703	8,516.372
Net borrowing (federal financing)		-7,910.796	-7,996.092	-8,422.170

Budget based on the operating statement	Budget 2015	Budget 2014	Actual 2013
Revenues	146,354	147,117	160,204
Expenses	146.354	8.177,756	8.563,733
Net profit/loss	-7,946.994	-8,030.639	-8,403.528

¹ Only selected information from the 2015 budget for Chapter 30 Education and Women's Affairs is presented here.



Target outcome objectives:

Outcome objective 2: Improving equality of opportunity and gender equality in education

Reason for this outcome objective?

The human capital of the Austrian population can only be developed if educational opportunities are equally distributed. This applies both to individuals and to the different groups within the population. Particular importance is given to promoting individual talents, performance and effort at all educational levels, the opportunity to

catch up on educational qualifications, gender diversification in educational pathways, and increasing gender and diversity skills in teacher training and management.

How is this outcome objective being pursued? (excerpt)

- High quality implementation in new middle schools by means of a new teaching and learning culture
- Quantitative and qualitative expansion of full-day schooling from the 1st to 9th grade

What constitutes success?

Performance figure 30.2.1	Percentage of students commencing university studies after passing the higher education entrance examination (Berufsmatura)					
Calculation method	Students commencing university studies after passing the higher education entrance examination ÷ resident population of the same age, calculated as the average size of the 18 to 22 year-old age group of the resident population at the beginning of the 4 th quarter					
Data source	STATISTICS AUSTRIA, Austrian Federal Ministry for Science and Research (BMWFW), data reported by universities, universities of applied sciences (Fachhochschulen – FH), teacher training universities (Pädagogische Hochschulen – PH)					
Performance	Actual 2011	Actual 2012	Target 2013	Target 2014	Target 2015	Target 2016
	2010/11: 2.07%	2011/12: 2.21%	2012/13: 2.27%	2013/14: 2.40%	2014/15: 2.45%	2015/16: 2.45%
All values refer to school years						

Performance figure 30.2.2	Number of individuals who have caught up on mandatory schooling (graduates)					
Calculation method	Absolute number of graduates					
Data source	Monitoring database set up on 1 January 2012 in accordance with the provisions of Art. 12 and 13 of the Agreement under Art. 15a of Austrian Federal Constitutional Law (B-VG) between the Austrian federal government and the Austrian states on the promotion of adult courses in the area of basic education/ basic skills and courses for catching up on mandatory schooling					
Performance	Actual 2011	Actual 2012	Target 2013	Target 2014	Target 2015	Target 2016
	no data available	no data available	990	990	990	990
	The calculation method was changed from the number of participants in the 2013 budget to the number of graduates.					

Performance figure 30.2.3	Number of students in types of schools that are not typical for their gender (10th grade)					
Calculation method	Students in the 10 th grade that are in a type of school that is "not typical for their gender" ÷ all students in the 10 th grade					
Data source	Austrian Federal Ministry of Education and Women's Affairs (BMBF), STATISTICS AUSTRIA, educational documents					
Performance	Actual 2011	Actual 2012	Target 2013	Target 2014	Target 2015	Target 2016
	2010/11: 10.0%	2011/12: 10.8%	2012/13: 10.6%	2013/14: 11.2%	2014/15: 11.3%	2015/16: 11.3%

Chart: Federal Budget 2015, Chapter 30 Education and Women's Affairs – figures section and information on outcome orientation

Chart: Federal Finance Act, Annex I, Global budget 30.02 Schools including teaching staff

Global budget 30.02 Schools including teaching staff

Budget based on the operating statement	Budget 2015	Budget 2014	Actual 2013
Revenues from operational administrative activity and transfers	105.498	105.498	112.210
Revenues	105.498	105.498	112.210
Personnel expenses	2,942.688	2,937.911	2,924.743
Transfer expenses	3,702.117	3,735.203	3,701.490
General administrative expenses	325.913	325.666	339.861
Finance expenses	0.009	0.009	0.001
Expenses	6,970.727	6,998.789	6,966.095
Net profit/loss	-6,865.229	-6,893.291	-6,853.885

Budget based on the cash flow statement– General budget transactions	Budget 2015	Budget 2014	Actual 2013
Receipts from operational administrative activity and transfers	45.430	45.430	50.760
Receipts from investment operations	0.031	0.031	0.043
Receipts (general budget transactions)	45.461	45.461	50.803
Expenditures based on operational administrative activity	3,154.466	3,149.442	3,144.986
Expenditures based on transfers	3,702.112	3,735.198	3,683.716
Expenditures based on investment operations	31.359	32.906	27.130
Expenditures (general budget transactions)	6,887.937	6,917.546	6,855.832
Net cash flow	-6,842.476	-6,872.085	-6,805.029

Global budget 30.02 Schools including teaching staff

Activities, including gender equality activities (excerpt)

Contribution to outcome objective	How are the outcome objectives being pursued? Activities:	What constitutes success? Milestones/performance figures for 2015	Actual situation (starting point for 2015 planning)
Outcome objectives 1, 2	High quality implementation in new middle schools (NMS) by means of a new teaching and learning culture	School year 2014/15: new classes at NMS locations in generation 7: 280 (total classes at all NMS 7,461)	School year 2012/13: new classes at NMS locations in generation 5: 613 (total classes at all NMS 4,242)
		Number of learning designers at all new NMS locations + 136 (total number of learning designers 1,072)	Number of learning designers at all new NMS locations + 260 (total 691)
Outcome objectives 1, 2	Quantitative and qualitative expansion of full-day schooling from the 1 st to 9 th grade	Number of student places at academic secondary schools (allgemein bildende höhere Schulen) and compulsory schools (allgemein bildende Pflichtschulen): 145,036	Number of student places at academic secondary schools and compulsory schools: 119,036



Comments concerning activities in the previous federal budget that are no longer included in the five primary activities in this federal budget – Recommendations by the Austrian Court of Audit and response by the line minister (excerpt)

2	In-depth analysis of funds used for the new middle schools in secondary level I, taking account of long-term outcomes and subsequent economic costs (fed. govt. 2013/12, SE 23)
re 2	The Austrian Federal Ministry of Education and Women's Affairs will monitor resource use at both school types using the data available and improving the data.
5	Continuation of efforts to coordinate and manage activities to promote students with immigrant backgrounds; increased efforts at the different levels of the educational system (fed. govt 2013/6, SE 5)
re 5	A first concrete step is being taken by establishing common quality criteria for location-specific language promotion models (language promotion clusters, network schools) for the transition from kindergarten to primary school.

Chart: Federal Budget 2015, Global budget 30.02 Schools including teaching staff – figures section and information on outcome orientation (excerpt)

➤ Organisation of budget management and control of budget managing bodies

The line ministers (e.g. ministries) are responsible for allocating budget funds and achieving outcome objectives.

Within the administration (budget managing body, for example: prisons, tax offices), performance mandates are prepared at the detail budget level that specify the objectives to be achieved and the financial and personnel resources available to achieve them. This ensures that the objectives and activities specified in the budget are implemented operationally.

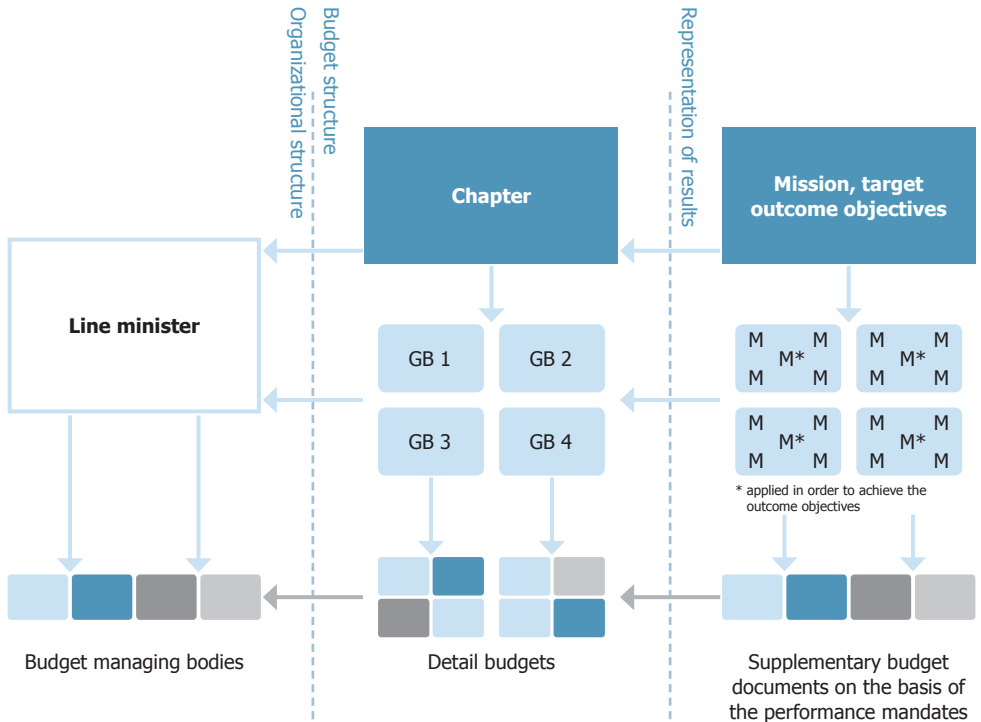


Figure: Management architecture of the reform (GB = Global Budget, A = Activity)
 This figure shows the interplay of the outcome orientation in the budget structure.

The performance mandate must include the financial and personnel resources, the target objectives of the budget managing body

and the measures and activities required to achieve the objectives. This creates an incentive to use budget funds efficiently.



➤ Statement of financial position

Due to the requirement for a true and fair view of the financial position of the federal government that is anchored in Austrian Federal Constitutional Law (B-VG), in addition to presenting liquidity and resources, the financial position of the federal government also needs to be presented.

The statement of financial position is not displayed in the budget. It records inventories and ongoing changes to assets, external funds and net assets.

First-time measurement was performed during preparation of the opening statement of financial position as at 1 January 2013, which recorded the assets of the federal government, and its obligations and debts.

The annual changes can be seen in the annual report prepared with the new classification.

➤ Opening Statement of Financial Position for the Austrian Federal Government as at 1 January 2013

The Austrian federal government satisfied its constitutional responsibility to provide a true and fair view of its financial position by preparing an opening statement of financial position as at 1 January 2013.

For practical reasons, the Austrian Opening Statement of Financial Position Regulation (Eröffnungsbilanzverordnung) allows appropriate use of flat-rate and comparative parameters for measurement. The opening statement of financial position was prepared in accordance with the reliability, completeness and gross presentation principles.



Key figures from the opening statement of financial position for the Austrian federal government

Condensed Statement of Financial Position for the Austrian Federal Government as at 1 January 2013

ASSETS	in EUR
A Non-current assets	76,102,292,902.39
A.I Intangible assets	368,174,458.38
A.II Property, plant and equipment	39,588,678,261.93
A.III Securities and other financial assets	3,824,000,000.00
A.IV Equity investments	25,189,128,452.17
A.V Long-term receivables	7,132,311,729.91
B Current assets	13,406,897,790.94
B.I Short-term financial assets	0.00
B.II Short-term receivables	8,499,492,321.12
B.III Inventories	698,836,278.74
B.IV Cash and cash equivalents	4,208,569,191.08
Total assets	89,509,190,693.33

Table: Condensed Statement of Financial Position – ASSETS



NET ASSETS AND LIABILITIES	in EUR
C Net assets (balancing item)	- 133,873,299,331.09
D Non-current liabilities	187,219,596,890.75
D.I Long-term financial liabilities, net	169,702,071,074.72
D.II Long-term payables	14,004,805,522.87
D.III Long-term provisions	3,512,720,293.16
E Current liabilities	36,162,893,133.67
E.I Short-term financial liabilities, net	19,848,526,578.95
E.II Short-term payables	15,931,759,970.13
E.III Short-term provisions	382,606,584.59
Total net assets and liabilities	89,509,190,693.33

Table: Condensed Statement of Financial Position – NET ASSETS AND LIABILITIES

The largest items on the asset side are property, plant and equipment (property, buildings, cultural assets) and federal equity investments (around 180 equity investments), while long-term financial liabilities is by far the largest item on the liabilities side. Long-term financial liabilities includes all federal monetary liabilities that were assumed in order to give the Federal Government the ability to dispose of funds, together with currency swaps.

The net assets item in the statement of financial position is the difference between the assets reported on the asset side of the statement of financial position and the total liabilities reported on the liabilities side of the statement of financial position. The negative value for net assets shows clearly that federal liabilities are significantly greater than federal assets.



» The Annual Report for 2013

The annual report was prepared using the new classification for the first time in 2013. It documents the results of the federal government's budget management and provides a basis for the exercise of control rights by the National Council. The annual report presents the financial position, financial performance and cash flow situation of the federal government and the entities under its management, and in particular provides information on the federal debt. The annual report also provides an overview of the general economic situation and includes macro- and microeconomic analyses. The Annual Report is composed by the Court of Audit. The Ministry of Finance has to provide and compile the closure account.



Conclusion

Initial experience with the new budget law shows that the budget reform at the federal level was an important step towards modern budget management, but that this reform process is by no means complete. Since the reform was very comprehensive with a wide range of new elements, it still needs time to eliminate errors and other implementation problems. In 2014, an internal evaluation was performed to analyse administrative expenses related to various reporting and information requirements, the reserve system and the sequence of activities in the budget process. The law also provides for an external evaluation in 2017 at the latest, which will examine the federal budget reform in detail.

Extension of the budget reform to all administrative levels of the Republic of Austria (Austrian states and municipalities) is planned for the near future.

The Austrian budget reform has become a highly regarded example of modern budget management and is regularly used as a source of best practice.

► The federal budget reform brings the following:

- Government can manage with more precision;
- The administration can show what it accomplishes;
- Interested citizens can see more clearly what happens with their tax dollars.

This moves Austria an important step in the direction of being an international model for budget management.

Further information is available on the Austrian Federal Ministry of Finance website (<https://www.bmf.gv.at/budget/haushaltsrechtsreform/haushaltsrechtsreform.html>) and <https://english.bmf.gv.at/budget-economic-policy/The-Austrian-Federal-Budget-Reform.html>)

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