

BUDGET

REFORM

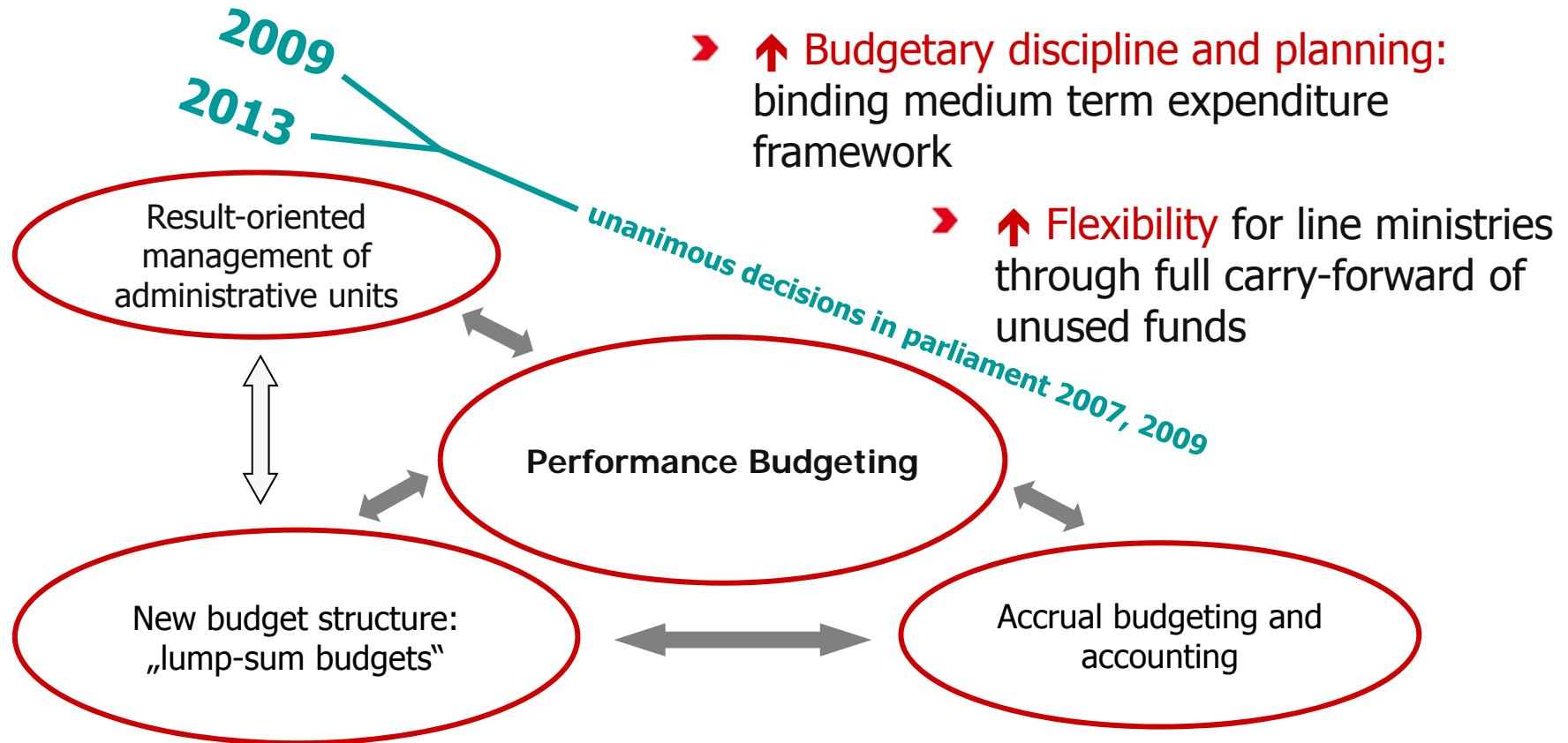
Putting tax money to effective use for citizens.

Budget Reform: Lessons Learned from Austrian Case

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Austrian Federal Budget Reform - Overview



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

MTEF – the Idea

Keep
a
lid
on
expenditure.



Legally Binding Federal MTEF



- **independent research council** (Austrian Institute of Economic Research – WIFO) delivers economic forecast
- **MTEF law** sets expenditure ceilings
 - for 4 years (n+4 is added annually)
 - for 5 headings (almost each covers several ministries) and
 - for about 30 budget chapters (following the organization of ministries)
- **2 kinds of ceilings:**
 - nominally fixed: ~75% of expenditure
 - variable according to predefined indicators for expenditure areas with high sensitivity to the business cycle, directly linked to tax receipts, refunded by EU and payments from due liabilitiesStrategy report as an explanatory document
- Additional ceiling for HR capacity (per ministry) for 4 years
- Strategy report as an explanatory document
- **Austrian MTEF combines budget discipline, sensitivity to the business cycle and focus on expenditure**

Austrian Federal Budget Reform - MTEF



- **↑ 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

Win-Win-Situation for Budget Sustainability and 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
 - same rules apply for certain receipts (not for tax revenue !) over budget during the current year
 - no earmarking of these reserves
- **very positive results:** containment of the „december-fever“, considerable savings, better prioritisation

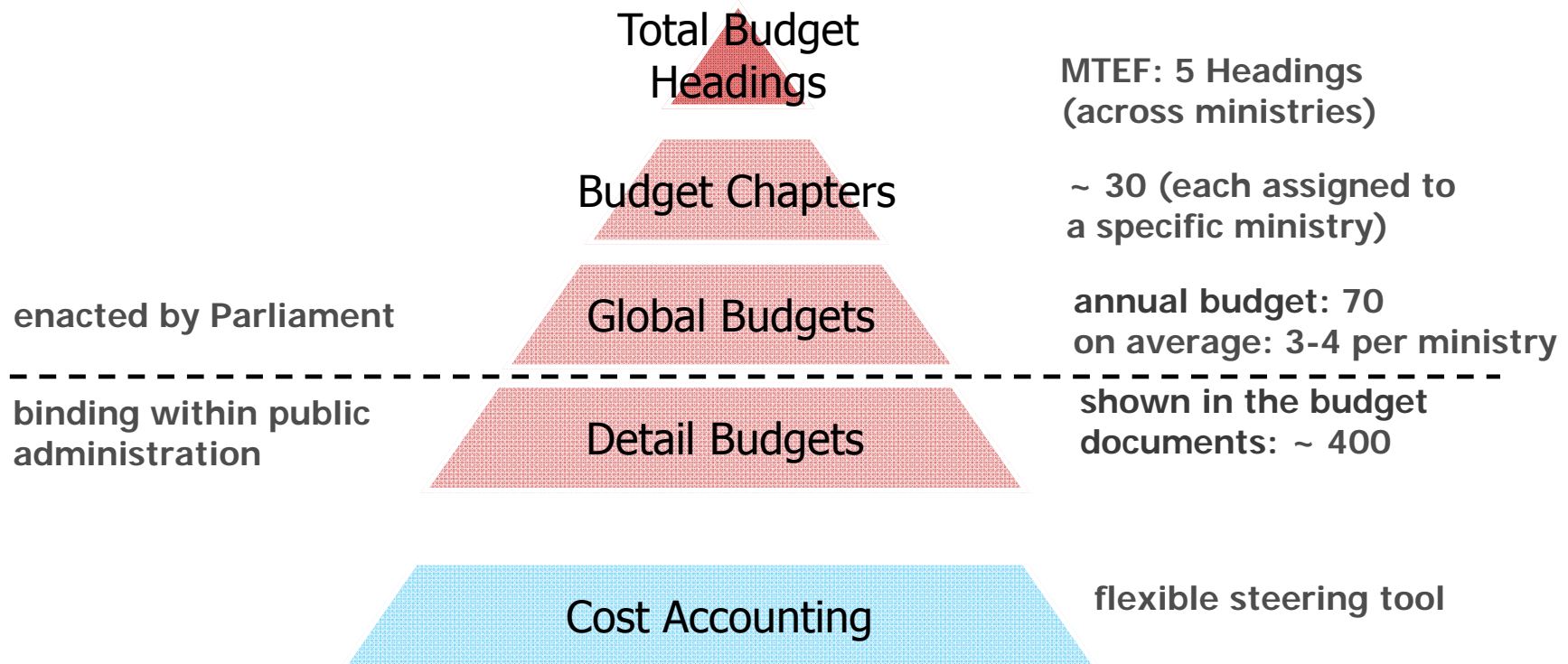
- Fiscal discipline supported:
 - forces stakeholders to look at medium term developments
 - helps markets to assess budget credibility
 - increases transparency for decision makers and public
 - strengthens top down – approach in budgeting
 - link to long term fiscal projection helpful

- MTEF- design matters:
 - counter-cyclical effects helpful to align budget and macroeconomic policy
 - Flexibility within strict expenditure limits crucial to motivate spending ministries to act responsibly (allow redeployments and carry forwards)
 - Focus on expenditure but don't forget incentives to increase revenue

- Apply MTEF credibly to shape budgetary culture:
 - avoid frequent (upward) amendments of MTEF in order to enhance fiscal discipline and planning reliability
 - MTEF is prior to annual budget

- Connect MTEF to results
 - Decisions to allocate resources should reflect political priorities
 - Link to results: Outcomes addressed when designing MTEF → specified outcomes + outputs in the annual budget

Enhanced Transparency and Meaningfulness 1: New Budget Structure



Transparent budget structure as a prerequisite for other reform elements

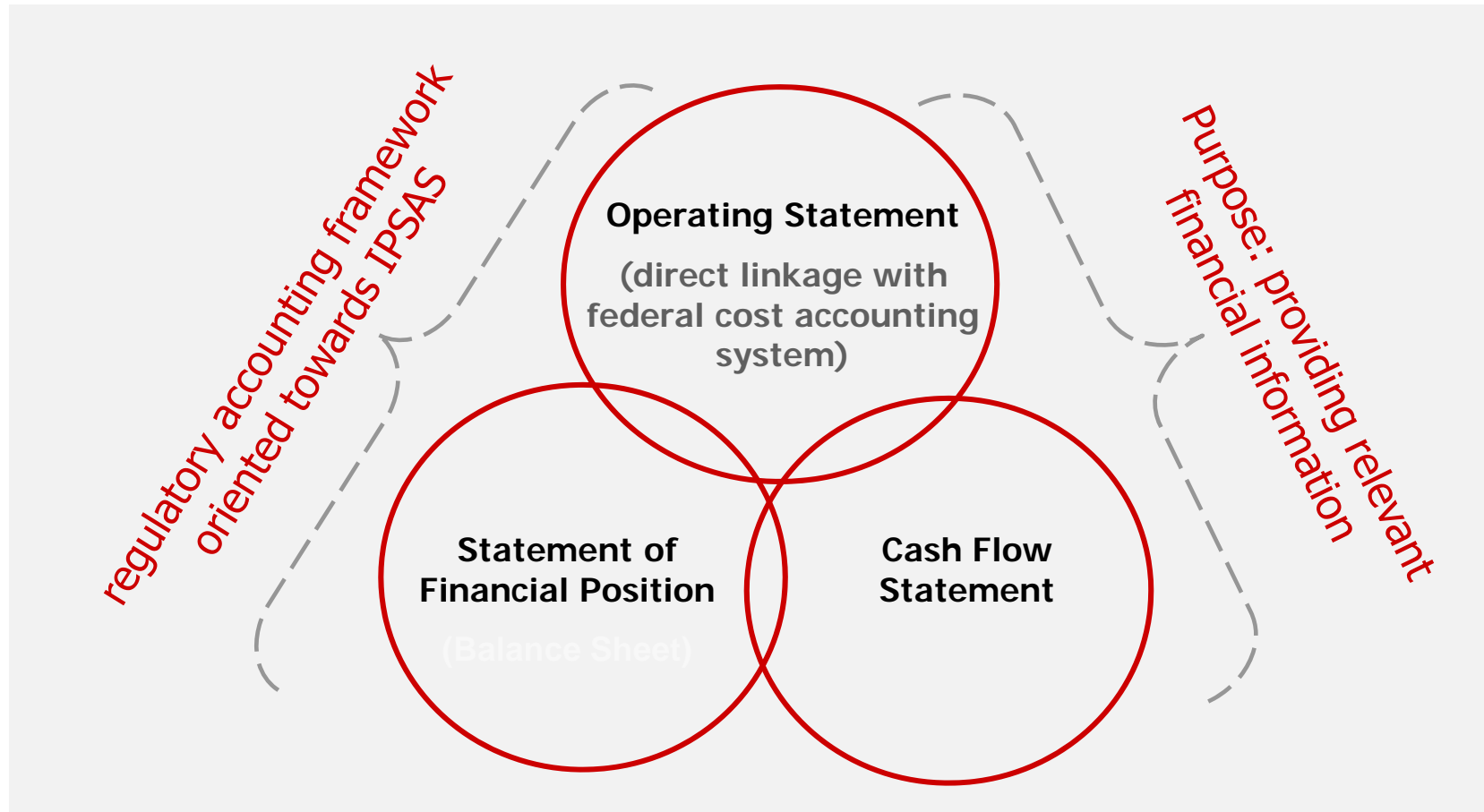
New Budget Structure – Lessons Learned



- Switch from detailed legally binding line item appropriation to higher aggregated budget clusters makes sense
 - Strengthens budget flexibility within strict expenditure ceilings → increases acceptance of budget discipline
 - enhances readability of budgets → makes it easier to deal with the budget

- Still providing detailed budget information is crucial for Parliament to accept binding character of a higher aggregated budget level

Enhanced Transparency and Meaningfulness 2: Accrual budgeting and accounting



Accrual budgeting and accounting – Lessons Learned



- Accrual does NOT mean to dismiss cash → accrual is just more than cash – adds additional perspectives and provides additional information to steer the budget
- Accrual helps to prevent fiscal illusions (for instance: sale of real estate or equity) and to flag financial risks (for instance: accrued liabilities)
- Is the country richer or poorer than a year ago?
Cash gives no answer, accrual does.

Why Performance Budgeting?



- Typical budget decision: Who gets how much?
- Complementary decision: Who has to deliver which results for citizens?
- Budget should steer resources AND results to strengthen strategic policy impact and
- to provide transparency to citizens: value for tax-payers money

Challenges



- Cultural shift towards results: relevant for politicians and administration
- Relevance: Focus on key issues – avoid creating a bureaucratic monster
- Consistency of performance objectives
Verifiability: concrete benchmarks for success
- Comparability over time
- Coverage: No exemptions
- Ambition and conciseness

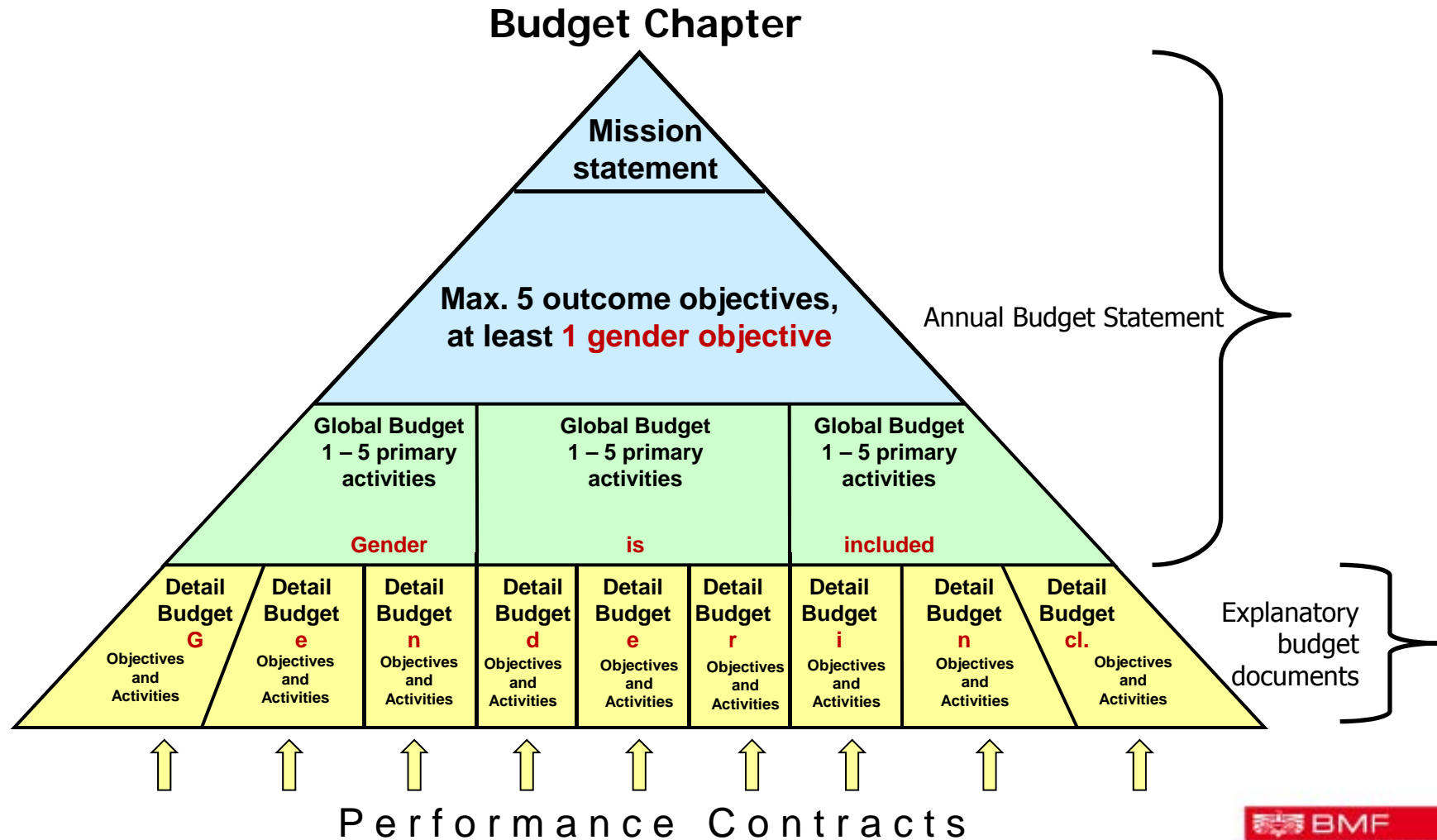
- Intended outcomes and outputs are integral part of budget decisions
- Standardized impact assessment for draft legal acts and major spending programs (ex ante)
- Evaluation of legal acts and major spending programs (ex post)

Dimensions

Impact on

- budget (expenditure; revenue)
- economy
- environment
- social issues
- gender
- consumers
- children and youth
- administrative costs for citizens and enterprises

Performance Budgeting (GB integrated) - Pyramid



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



Legally binding

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			I
Personnel expenses			
Operating expenses			
Transfer expenses			
Expenses on financial activities			
Expenses			
<i>...variable expenses thereof</i>			
Net balance			

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

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 (incl. gender) 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

Practical Example: Labour Market (Summary)



Outcome: Improving ability to work for elderly persons (50+)

- Why? Know how; contributes to growth and productivity; securing affordability of social system
- How? Fostering re-integration into the labour market; support programs
- Success? Employment rate for elderly persons; number of persons supported by allowances; number of health checks, of counseling interviews

Practical Example: Family Policy (Summary)



Outcome: Facilitating compatibility of jobs & family

- Why? Labour market participation fosters gender equality
- How? Improved childcare facilities by agreements between federal and regional governments; higher participation rate of men in childcare by redesigning family allowances
- Success? Birth rate; participation rate of men in childcare; percentage of children covered by childcare facilities

Practical Example: E-Government (Summary)



Outcome: More comprehensive e-government services for citizens, enterprises and public administration

Why? Enhanced value for citizens, enterprises and public administration; paperless handling of applications greens processes

How? Several additional e-government projects; cost-benefit analysis

Success? Number of e-government users, of e-applications and e-official notifications; benefit of e-government projects according to cost-benefit analysis

Gender Budgeting enshrined in the Austrian Constitution



- Art. 13 of the Austrian Constitution requires:
“Federation, States and Communes are to strive for the effective equality of women and men in their budget management.”
- According to the Austrian Constitution the Austrian Federation has to apply Gender Budgeting as an integral element of Performance Budgeting: Art. 51 of the Austrian Constitution states:
„In the budget management of the Federation the fundamental principles of impact orientation, especially under consideration of the objectives of the effective equality of women and men . . . are to be observed.”

Why Gender Budgeting?

- To foster gender equality: Focus on the most important levers.
- Budget decisions are KEY decisions: Government policy put into numbers.
- Therefore: Use the budget as lever for gender equality!

Challenges in Implementing Gender Budgeting



Political:

- Create awareness for gender issues: Identify reasons for stakeholders to support GB.
- Establish a broad political consensus to implement GB.

Technical:

- Focus on the most important issues. Don't create a bureaucratic monster!
- Design simple tools to support GB (i.e. standards to present GB in the budget).
- Collect, analyze and disseminate sex-disaggregated and gender-related data to identify the challenges to be tackled.
- Provide adequate training of staff.

Austrian Budget 2013: Practical GB-Examples



- **Facilitate compatibility of job & family:** Ministries of Finance; Economy and Family; High Courts
- **Facilitate participation of women in labour market:** Ministries of Labour and Social Affairs; Economy and Family; Transport, Innovation and Technology
- **Reduce gender pay gap:** Ministry of Finance
- **Safeguard women against violence:** Chancellery; Ministry of Interior
- **Reduce poverty among women:** Ministry of Labour and Social Affairs; Ministry of Foreign Affairs.
- **Improve representation of women in institutions:** Chancellery; Ministries of Defense; Science; Economy and Family; Finance
- **Improve gender data base:** Court of Audit; Ministries for Labour and Social Affairs; Health; Transport, Innovation and Technology
- **Improve public awareness for gender equality:** Parliament; Chancellery.

Impact assessment

- Key tool of performance budgeting
- Applies for legal acts and major spending programs
- Several dimensions (see page 6)
- Forces administration to ex-ante clearly assess
 - financial consequences of the respective issue?
 - consequences for the diverse dimensions?
- Supported by a standardized IT-tool

- Evaluation
 - legal acts and major spending programs
 - in charge: respective line ministry
 - time interval: 5 years

- Impact controlling
 - intended outcomes and outputs defined in the budget
+ results of evaluations in line ministries
 - in charge: chancellery in cooperation with line ministries
 - twice a year: report to parliament

Performance Budgeting – Lessons Learned 1



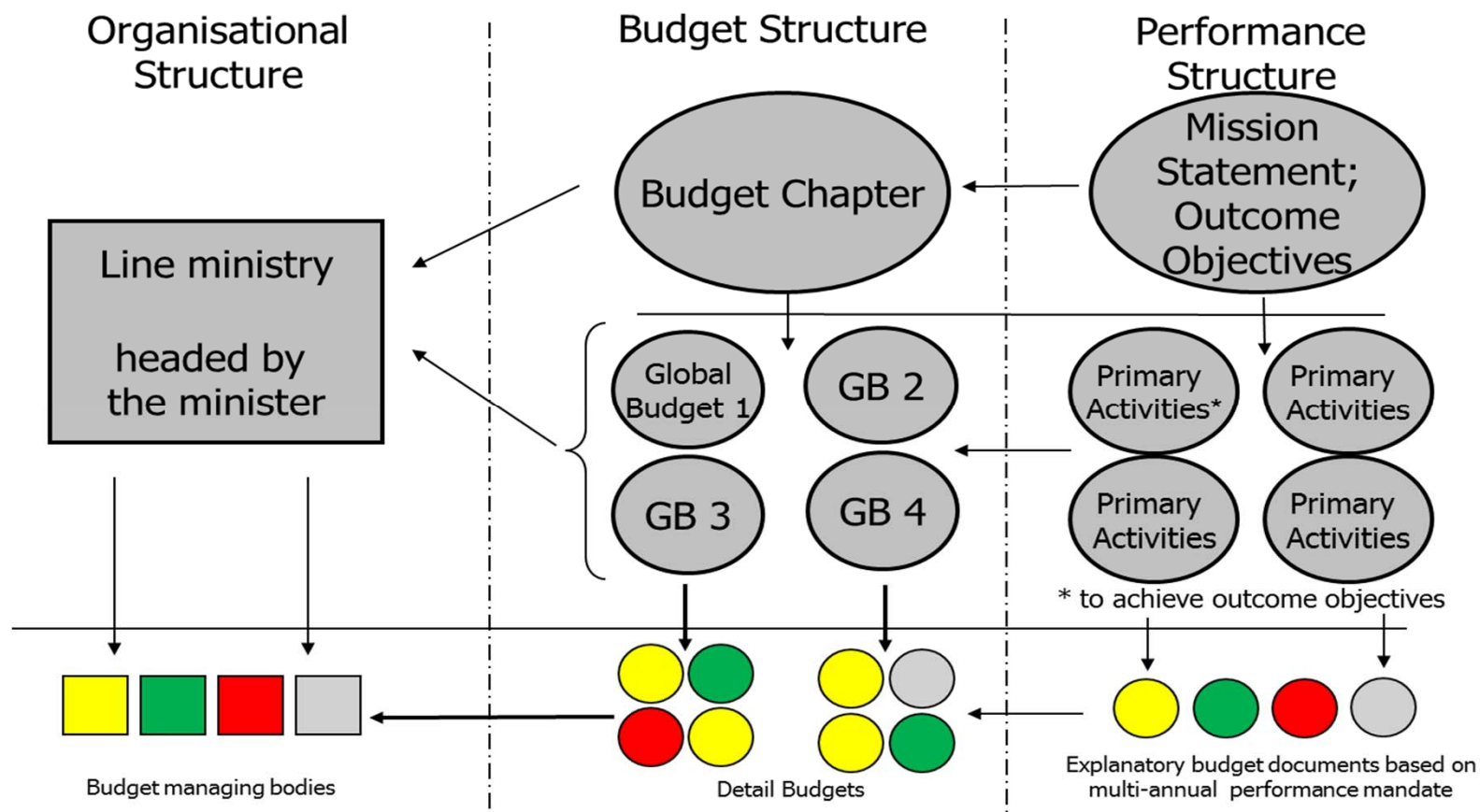
- Big cultural issue for administration and parliament: Focus on results.
- Cultural shift supported by intensive training courses.
- All ministries delivered outcomes and outputs; administration had to deal with intended results.
- Quality varies depending on commitment from ministers and senior administrative staff (ambition; conciseness).
- Consistency is sometimes an issue (between „related“ ministries; within ministries).
- Budget debates in parliamentary committees considerably focused more on results than in previous years.
- Media started to deal with performance issues.

Performance Budgeting – Lessons Learned 2



- Performance budgeting is not just a legal but primarily a cultural issue.
- Thus, implementation is never finished.
- Performance budgeting can trigger a focus on results and substantially improve value for money if:
 - the design is robust and limits complexity
 - well prepared
 - involved stakeholders make use of it
 - watchdogs assure relevance and quality

Integration of Organisational, Budget and Performance Management Structures



Thank you for your attention!

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