

Budgeting in Austria

by

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This article discusses budgeting institutions, processes and practices at the federal level in Austria. Separate sections are devoted to the budget formulation process, the role of parliament, and various aspects of budget implementation and government management issues. Each section highlights the government's reform agenda and current practices, and analyses the two vis-à-vis OECD best practices.

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1. Budget formulation

Budget formulation in Austria is in the process of evolving from a very traditional, highly legalistic and input-oriented regime to a modern, streamlined and performance-oriented regime. Significant reforms have already taken place and further ones are being planned. These include:

- The introduction of a rolling, medium-term expenditure framework (budget + 3 years), setting expenditure ceilings on an aggregate level, which will be binding and enacted into law. In addition to this law, a separate budget strategy report will be presented; it will explain the economic considerations and political aims of the MTEF and include more information such as revenue forecasts and a discussion on fiscal and budgetary policy. These two documents will be presented in the spring (second quarter), separate from the annual budget law.
- Making “each minister his/her own finance minister” by consolidating appropriation items within a minister’s responsibility and giving great(er) flexibility in managing the appropriations under his/her purview.
- A greater focus on the use of performance and results information to guide budget decisions.

This section begins by highlighting special features of the current Austrian budget process and then outlines the key steps in the annual budget process. The section concludes by discussing current practices and the envisaged reforms *vis-à-vis* best practices in other OECD member countries.

1.1. Special characteristics

This sub-section highlights six special features of the current Austrian budget formulation process, which mostly reflect reforms introduced in recent years:

- a fiscal rule encompassing all levels of government;
- four-year government coalition agreements;
- biennial budget planning;
- independent economic assumptions;
- global expenditure ceilings;
- manpower controls.

1.1.1. Fiscal rule encompassing all levels of government

To co-ordinate the budgets of the three levels of government – federal, state and municipal – the “Austria Stability Pact” was introduced in 1999. From 2001 onwards, this stability pact has set deficit and surplus targets for all three levels of government for a period of four years. The targets are defined in terms of national accounts, the same basis as applied in the Maastricht criteria for the European Economic and Monetary Union (EMU). The current Austria Stability Pact for the years 2005-08 calls for a decline in the general government deficit ratio in order to achieve overall balance for the general government in 2008.

The need for this rule arises from the fact that about one-third of all government expenditure in Austria is carried out by subnational government, principally the states over which the federal government has no control in fiscal matters. The states produce their own budgets and can borrow without needing any approvals from the federal government.

The subnational levels of government, however, have very few own revenues. Most of their revenue comes in the form of fiscal transfers from the federal government. In fact, the federal government collects over 95% of all taxes in Austria. The federal government is responsible for legislation regarding tax and grant financing of the subnational government sectors. Regular negotiations are held between the federal government and lower levels of government on the fiscal transfer arrangements.

The development of the Austria Stability Pact was a by-product of these regular fiscal discussions between the different levels of government. The pact was ratified by the federal parliament and the individual state parliaments, and as such has the force of law. The pact calls for the balanced budget objective to be achieved through a shared effort between the three levels. The states are to have a surplus equivalent to 0.75% of GDP while the federal government can have a deficit equivalent to 0.75% of GDP. The municipalities are to be in balance. The surpluses of the states *vis-à-vis* the deficits of the federal government are a function of the political power of the states. As the states receive their funding primarily from the federal government, the balanced budget objective could have been achieved by lowering their fiscal transfers but this was not considered politically feasible.

The pact includes sanctions if levels of government do not fulfil their balanced budget objective. These sanctions include fines which are to be imposed on the sector that does not fulfil its responsibilities. In the case of the state and municipal levels, the fines would be on the individual state or municipality that did not fulfil its obligations. These sanctions have never been used, however, since all levels have met their obligations.

1.1.2. Four-year government coalition agreements

No political party enjoys a majority in the Austrian parliament. As a result, it is necessary to form coalitions between two or more political parties in order to form a majority government. These have most frequently been “grand coalitions” between the country’s two dominant political parties – the conservative People’s Party (ÖVP) and the Social Democratic Party (SPÖ).

When a new government is created, it announces its major policy objectives in a document known as the “coalition agreement”. There is no set template for the contents of these agreements, and their exact form varies each time. The 2002–06 coalition agreement is a document of about 40 pages. It is principally a statement of general policy orientations but also highlights specific reform initiatives to be undertaken during the government’s term of office. It is reviewed midterm to accommodate any new policy initiative that the coalition partners may decide upon, and takes into account economic developments since the original agreement.

The coalition agreements address budgeting issues only in broad terms, specifically by setting an explicit deficit target for each year. The Ministry of Finance provides a budgetary forecast for the government’s term of office to inform these decisions. The agreement sets no limits on the level of expenditures, either in aggregate or for specific sectors. The agreements do, however, set out numerical targets for savings from specific reforms and specify how much money will be devoted to new initiatives. As such, the agreements are the primary basis for discussion by the coalition parties during the annual budget negotiation rounds.

The agreements can in no sense be considered a medium-term expenditure framework and are not designed as such. They can easily be changed by the coalition partners at low political cost in terms of public credibility, and in practice they cease to exist in the waning moments of the government’s term of office.

Aside from providing the budgetary forecast, the Ministry of Finance has no institutional input into the coalition negotiations.

1.1.3. Biennial budget planning

For some time, Austria has adopted a biennial budget planning horizon. However, the budgets are enacted into law on an annual basis by parliament as is required by the Austrian constitution. This means that one budget would be enacted in December in line with the typical parliamentary budget calendar, and the second year’s budget would be enacted into law early in the following calendar year.

The primary motive for the adoption of biennial budgeting was political. It was seen as a better basis on which to tackle difficult reforms: “easier to take the political hit once every two years than every year”. In practical terms, biennial budgeting provided greater funding certainty to spending ministries, which was especially important for programmes that were being reformed and where not all savings occurred in the first year. In the absence of biennial budget planning, such reform initiatives may not have been implemented.

Biennial budgeting must be seen as an interim substitute for a medium-term expenditure framework rather than as a preferred method of operation. In fact, the proposed budget reforms in Austria include a binding four-year medium-term expenditure framework. This new framework does not include biennial budget planning, but still leaves room for such procedures if the government and parliament do choose to adopt them.

1.1.4. *Independent economic assumptions*

All macroeconomic assumptions used in the budget process are prepared by an independent institution, the Austrian Institute for Economic Research (WIFO, see Box 1). This practice is not enshrined in legislation but is nonetheless an entrenched pillar of Austrian budgeting, reflecting both a broad political consensus and a general consensus in society.

WIFO produces multiple forecasts for the Ministry of Finance, including the four-year perspective used in the coalition negotiations, the economic assumptions for the annual budget, and quarterly in-year updates. WIFO forecasts are also used in international reporting, such as the annual stability programme submitted to the European Commission.

There are no “prudency” biases in the forecasts produced by WIFO. Their objective is to forecast as accurately as possible. Their record of forecast

Box 1. WIFO: Austrian Institute for Economic Research

WIFO was founded in 1925 and in legal terms is a free-standing “association”. It is funded by the federal government, the state governments and the social partners, as well as by specifically funded and commissioned research. It has a professional staff of about 100 persons. Its work is supervised by a scientific committee composed of independent experts, including Austrian and foreign academics as well as representatives of similar foreign bodies and international organisations.

In addition to providing the economic assumptions used by the Ministry of Finance, WIFO is engaged in a variety of economic research, both macro and micro, and both in Austria and internationally.

accuracy compares favourably to those produced by other organisations such as financial institutions and other research bodies.

1.1.5. Global expenditure ceilings

In the mid 1990s, the Ministry of Finance adopted global expenditure ceilings for each budget chapter (see also the discussion in section 3.2). Some ministries may be responsible for more than one budget chapter and, therefore, receive ceilings for each chapter. The Ministry of Finance issues two global amounts for each chapter: one for personnel costs and one for all other expenditures. The spending ministries are given maximum freedom to reallocate within the ceiling for all other expenditures. The ceiling for personnel costs is rigid. This reform represented a huge break with past practice. Previously, all discussion between the Ministry of Finance and spending ministries took place at the level of detailed line items.

Box 2. Government Debt Committee

The Government Debt Committee is an independent standing body created in 1970. Its purpose is to contribute to the general public policy debate in Austria, focusing on the promotion of necessary economic and fiscal reforms. It views itself as a “friendly watchdog” that “speaks the language of professors, not politicians”. The committee has played an important role in highlighting and advocating necessary reforms – such as old-age pension – in order to promote economic development and fiscal sustainability.

The committee consists of 15 members: six members (including the chair) appointed by the federal government, three by the Austrian chamber of commerce, three by the federal chamber of labour, and one each – without voting right – from the Austrian association of municipalities, the Austrian association of cities, and the conference of provincial governors. The committee meets on an *ad hoc* basis as required by circumstances and on the initiative of the chair, but at least once every quarter. The recommendations of the meetings are published.

The committee publishes an annual report presenting its views on the government’s budget, the economic situation, and areas that the committee views as important for the government to launch reform initiatives. The committee also studies and publishes reports on more specialised topics under the supervision of dedicated expert groups; only one or two such reports are usually published each year.

The secretariat for the committee is provided by the central bank.

These aggregate ceilings are not binding, however, neither legally nor politically. They are the stand-alone proposal of the Ministry of Finance and can best be seen as a management tool in the budget formulation phase. The final expenditure ceiling for each chapter will depend on the outcome of subsequent negotiations. The important points are the global nature of the ceiling and the freedom for spending ministries to reallocate among their various appropriations. These are further discussed in section 1.2.

1.1.6. Manpower controls

Austria uses a comprehensive system of manpower controls known as the *Stellenplan*. These manpower controls are enacted into law each year by parliament along with the budget. The *Stellenplan* is set at a very detailed level: at the level of significant units within a ministry and at each grade of staff. Due to the fact that the *Stellenplan* is decided on and set by the parliament, the total number of posts within a ministry cannot be changed by the government. It is possible to adjust the posts within a ministry by government decree as long as no additional costs arise and no additional posts are needed. However, this is a complex, non-routine procedure.

These manpower controls have a long history. They must also be seen in the context of the inflexible civil service labour market where, for all practical purposes, it is impossible to lay off staff. An individual hiring decision is often a 40-year fiscal commitment. At the same time, there are efforts to downsize the civil service in Austria (through natural attrition and early retirement schemes), and the numerical manpower controls as such have great resonance in political terms. Future reforms of the *Stellenplan* include efforts to aggregate posts within ministries, except for top-level positions, in order to gain more flexibility. This is further discussed in section 3 on budget implementation and government management issues.

1.2. Budget formulation process

This sub-section outlines a typical timetable for a regular budget cycle. It does not take specific account of the use of two-year budgets, as biennial budget planning is not an inherent part of the planned reforms.

The budget season traditionally starts in May, seven months prior to the start of the fiscal year the following January, with internal preparations in the Ministry of Finance and in spending ministries.

The Ministry of Finance updates the baseline forecasts for both revenues and expenditures. The ministry maintains a sophisticated and comprehensive internal medium-term expenditure framework for these purposes, which is updated on a rolling quarterly basis, including the impact of updated economic assumptions. The ministry uses the economic assumptions that are transmitted

from WIFO, the Austrian Institute for Economic Research. The Ministry of Finance uses internal models for estimating the impact of demographic developments and take-up rates for various entitlement programmes.

The updated baseline – together with the multi-annual deficit consolidation targets and reform initiatives contained in the coalition agreement and the Austria Stability Pact – will yield the amounts necessary for fiscal consolidation or the available room for fiscal manoeuvre for the coming budget year.

The Minister of Finance will share the conclusions of this exercise with the Chancellor before presenting it to the cabinet. The Chancellor and the leader of the coalition party will discuss the updated baseline from the point of view of their political objectives. However, this discussion is principally in terms of the political priorities to be reflected in the budget. There are no specific expenditure ceilings set for individual ministries at this stage.

To ensure that the outcome of the federal budget is in line with the government's medium-term budgetary programme as laid down in the coalition agreement, the Ministry of Finance then prepares budgetary targets for each chapter (one or more per ministry).

The result of the above-mentioned procedure is the budget guidelines from the Ministry of Finance; these contain expenditure ceilings and expected revenues for each budget chapter, as well as specific accounting policies and directives for each entity. The ceilings contain two global amounts, one for personnel expenditure and one for all other expenditure. Aside from the ring-fencing of personnel expenditure, ministries have complete freedom to reallocate among the various appropriations within the ceiling, taking into account the cabinet's political priorities and mandatory expenditure. The amount is fully fungible between transfers, capital and other expenditures. For the calculation of certain entitlement programmes, the Ministry of Finance also transmits the accepted forecast methodology for the respective programmes.

As noted previously, the ceilings are set by the Ministry of Finance on its own responsibility. They are not endorsed by the cabinet and as such are not binding, neither legally nor politically. The final expenditure "ceilings" emerge following the outcome of negotiations between line ministers and the Minister of Finance and, in some cases, the Chancellor and the leader of the coalition partner.

At the same time, line ministries will have been collecting proposals from the various parts of their ministry: the individual directorates and subsidiary entities. This is a bottom-up exercise in order to inform decision making – reallocations – and to compile an aggregate draft budget proposal for the ministry. It should be noted that an important by-product of the introduction of global expenditure ceilings in the recent top-down budgeting approach has been to enhance the role of the central budget units in each spending ministry. The Ministry of Finance has a policy of only interacting with these units.

Box 3. Budget formulation timetable
Fiscal year = calendar year

May	Detailed medium-term forecasts within the Ministry of Finance.
June	The Ministry of Finance issues budget circulars, including expenditure ceilings for each ministry.
End June and July	Line ministries submit allocation proposals in reply to the ceilings suggested by the Ministry of Finance. Exchange of information on outstanding issues between the Ministry of Finance and line ministries.
End August	Discussions and agreement at ministerial level on expenditure ceilings for each ministry.
September	Appeals to the Chancellor for reconciliation, if necessary.
October	Finalisation of budget documentation.
Late October	Budget introduced in parliament.

The spending ministries submit their allocation proposals to the Ministry of Finance from the end of June through July. Their bids will invariably be significantly in excess of the expenditure ceiling set by the Ministry of Finance and will be more a reflection of the conclusions of their internal budget exercises than any attempt to remain within the ceiling set by the Ministry of Finance.

In the following weeks, line ministries and their “mirror” in the Ministry of Finance meet to exchange information and discuss requests for appropriations. No decisions or reconciliation on differences take place during these meetings; they are informational meetings only. The purposes of the meetings are to clarify what line ministries are requesting and to discuss different views on appropriation levels, if any, between the line ministries and the Ministry of Finance. On average, line ministries’ requests are about 10% higher than the original ceilings proposed by the Ministry of Finance, but the differences vary considerably between ministries. The discussions take place in *ad hoc* meetings rather than in a preset formal schedule of meetings for these purposes, and they are very open. After this exchange of information and views on appropriation levels, civil servants of line ministries and the Ministry of Finance inform their respective ministers who then meet to resolve outstanding issues. When the line ministers meet with the Ministry of Finance, amounts are decided at chapter level, not individual appropriation level.

It may not be possible to resolve the most politically sensitive issues between the line ministers and the Minister of Finance. Instead, they may reach the level of the Chancellor. These issues are finally decided by the Chancellor and the leader of the coalition partner. (Some issues are not always resolved prior to the budget being introduced in parliament, as is discussed in the next section.)

Following the conclusions of the negotiations, the “final” expenditure ceilings for each chapter (one or more per ministry) are sent to line ministries. They allocate funds to the detailed account structure and provide the Ministry of Finance with draft commentary to be included in the budget documentation. The Ministry of Finance uses these drafts as appropriate in the final budget documentation. This final stage also includes fine-tuning of the manpower controls contained in the *Stellenplan*, and assembling the necessary changes to substantive programme legislation into a single omnibus bill. These are presented to parliament along with the budget proposal in late October.

Box 4. Directorate-General of Budget and Public Finance

The Directorate-General of Budget and Public Finance is one of six directorates within the Ministry of Finance. The Directorate consists of 11 divisions. Four divisions are responsible for general issues, co-ordination, planning and administrative reform. The other seven divisions “mirror” individual spending ministries. The staffs of these divisions are responsible for contacts between the Ministry of Finance and line ministries in all phases of the budget process. The Directorate has a professional staff of 110.

1.3. Conclusion

As noted, a cornerstone of the planned reforms is to introduce a **medium-term expenditure framework** which Austria lacks at present. This framework would take the form of legally binding expenditure ceilings with a four-year horizon – the upcoming budget and three forward years. A new fourth year would be added every year. In this new framework, the coalition agreement remains as the key political statement of the government. This political declaration would be complemented by the legally binding medium-term expenditure framework, which is a more operative and detailed document. If the ceilings are to be changed, the government would have to make this explicit and propose relevant amendments in parliament. As such, the medium-term expenditure framework would be built on far stronger foundations than the present merely declarative arrangement, and would be more likely to enforce fiscal consolidation measures.

The draft of the medium-term expenditure framework law will be accompanied by the **budget strategy report**, both being presented to parliament in the spring (second quarter) of each year. The MTEF will be approved by parliament and will set expenditure ceilings on an aggregate level. The accompanying budget strategy report will not be voted on in parliament; it will elaborate further on fiscal and budgetary policy and will be a larger, more comprehensive document. These documents will not discuss individual appropriations, but rather give parliament an opportunity to discuss the budget aggregates from an overall economic and fiscal policy point of view. The detailed appropriations will be discussed in the regular budget which has to be set up within the limits of the medium-term expenditure framework. This is in line with OECD best practices. It is important to ensure that the division between the medium-term expenditure framework (accompanied by the budget strategy report) and the annual budget is clear. Experience from countries such as Sweden shows that discussing the level of appropriations for each chapter in the spring (second quarter) risks expanding the discussion to the level of individual appropriation. This would mean that parliament would in essence discuss the same budget twice in the same year, which may lead to parliamentary fatigue with budget-related work.

The medium-term expenditure framework should also aid in maintaining fiscal discipline in the preparation of each year's budget, as it will be approved by parliament prior to the budget negotiations between the Ministry of Finance and the spending ministries.

The ceilings would be set for each chapter of the budget. These chapters will be amalgamated into five categories, or "rubrics":

- general government affairs, courts and security;
- employment, social services, health and family;
- education, research, art and culture;
- economic affairs, infrastructure and environment;
- financial management and interest.

The ceilings will be binding at the rubric level as well as the chapter level for the following year ($t + 1$). Since detailed planning is difficult several years in advance, the ceilings for the subsequent years after the following year will only be binding at the rubric level, whereas the limits at chapter level are merely indicative and open to modification within the rubric ceiling. Within each rubric, there may be a small pool of unallocated funds in the forward years to cover unexpected expenditures. Access to these funds is to be limited to only extraordinary and unforeseeable cases.

As a general rule, the ceilings are fixed. Nevertheless, some expenditures such as unemployment programmes depend so heavily on the development of

the business cycle that fixing a ceiling in advance is not considered feasible. Therefore, a limited number of variable ceilings exist. These ceilings are based on economic indicators and thereby automatically adjust: *e.g.* if the unemployment rate goes up, the ceiling for unemployment expenditures will rise accordingly and *vice versa*. The same applies to specific expenditures that depend on revenue – for example, the money provided to subnational governments, which depends on the tax income at federal level. All in all, about 20% of total expenditure would fall into the variable category where the budget changes alongside agreed economic indicators automatically.

The introduction of this medium-term framework is very much in line with best practices in other OECD member countries. However, it is worth highlighting two issues. First, the introduction of an overall fixed ceiling – *i.e.* with no variable component – may strengthen the medium-term expenditure ceilings even further. Experience from countries such as the Netherlands and Sweden has shown that an overall fixed expenditure ceiling is feasible and effective. A buffer (“expenditure margin”) – as opposed to a reserve fund – between forecast expenditures and the fixed ceiling would allow volatile expenditures to fluctuate without fiscal policy becoming pro-cyclical. There is also the concern that in due course more and more types of expenditures would be reclassified as variable and thus escape the fixed ceilings. The variable ceilings must therefore remain limited and exceptional in order to keep the medium-term expenditure framework as strong as possible. Second, the unallocated pool of funds in the forward years for each “rubric” may serve to hinder effective budget reallocations to cover unexpected expenditure increases. The Austrian model is to have a reserve at the rubric level to avoid inflation, by budget users, of their forecast, thus making sure that unexpected developments can be financed. However, there is a risk that the existence of this reserve could be seen as a way of solving unexpected expenditure needs or possibly providing room for new expenditure, making the expenditure ceiling – including the reserve – into an expenditure **target**. Experience from countries such as Canada also shows that ministries may be reluctant to offer internal savings to finance a new initiative knowing that such a reserve fund exists, and that any internal savings may actually benefit another programme (indirectly) within the same “rubric”. This problem has been considered by the Austrian authorities, and the aim is to make sure that the reserve fund is used only as a second alternative after internal savings.

In addition, the envisaged reforms call for strengthening the role of “**each minister as his/her own finance minister**”, by reducing the number of line items and giving spending ministers authority over how to distribute funds among the various appropriations within their budget chapters. In many respects, this is simply a confirmation of existing practice. In order to fulfil this reform goal, ministries will need increased flexibility in the carry-over of

Box 5. The proposed Austrian budget reforms in brief

- Introduction of a rolling four-year **medium-term expenditure framework** with expenditure ceilings for groups of chapters (“rubric” level).
- **Separating the discussion** on overall fiscal policy and the setting of expenditure ceilings in the medium-term expenditure framework (accompanied by the budget strategy report) from the annual appropriations budget.
- Strengthening the role of line ministers by making “**each minister his/her own finance minister**” within the line ministry’s area by removing many of the detailed appropriations and staff plans in the current annual budget law.
- Introducing a savings facility by allowing **unused appropriations** to be carried forward at the end of a budget year (to be discussed in section 3).
- Hand in hand with relaxed input control, the use of **performance and results information** will increase (to be discussed in section 3).
- The accounting system will be reformed and updated with the aim of introducing **accrual accounting**, while keeping the **budget on a cash basis** (to be discussed further in section 3).

unused appropriations from one year to another and in the area of manpower controls, the *Stellenplan*. The *quid quo pro* for this increased flexibility is a greater reliance on **performance and results information**. This is very much in line with OECD best practices. These issues are discussed in greater detail in section 3 below.

The Austrian budget is currently on a **cash basis**, employing an obligations framework. The reforms call for the introduction of accrual accounting. Emerging OECD best practice is to introduce full accrual accounting yet retain a cash basis for budget appropriations. Accruals are best used as an analytical tool rather than as a mechanism for decision making and control in budgeting.

2. Role of parliament

There are no restrictions on parliament’s role in the budget process; it can amend the budget at will or indeed prepare its own budget without reference to the executive. In reality, however, parliament’s role in the budget process is limited. This is primarily a function of Austria’s political environment and its long history of strong majority governments.

Austria’s politics have traditionally been dominated by the conservative People’s Party (ÖVP) and the Social Democratic Party (SPÖ). For most of the post-WWII period, these parties received over 90% of the votes in parliamentary

elections and frequently governed together in “grand coalitions”. The two parties also designated a large number of laws as having the status of “constitutional law” thus requiring a two-thirds majority in parliament to amend them. Both parties therefore had a mutual veto over major pieces of legislation regardless of whether they were actually in power or not, thus further cementing their dominance. More recently, however, the political environment in Austria has become more fluid with a greater role being played by other political parties.

This section reviews the Austrian parliamentary budget process. It concludes with an analysis of the current process and the impact of the proposed budgeting reforms, in the light of best practices in other OECD member countries.

Box 6. **The Austrian parliament**

The Austrian parliament – the *Österreichische Parlament* – is a bicameral institution consisting of the National Council and the Federal Council.

The National Council is the pre-eminent chamber of parliament. Its 183 members are elected for a term of no more than four years. The electoral system is based on proportional representation, i.e. not the “first past the post” method. Austria is divided into 43 local electoral districts. The number of seats assigned to each local district is based solely on its population. “Surplus” votes in any district are pooled together in order to ensure proportional representation on a national basis. A party must have at least 4% of the nationwide vote in order to gain a seat in the National Council.

The Federal Council’s task is to represent the interests of the states. The number of members of the Federal Council varies. At present, there are 62 members who are nominated by the nine state parliaments, i.e. they are not elected directly by the people. The terms of the members of the Federal Council reflect the terms of their respective state parliaments.

According to the constitution, the National Council has exclusive competence in budget matters. The Federal Council has no decision rights in this area; the principle is that the states have no right to intervene in the federal government’s “housekeeping”. The only area where the Federal Council’s approval is necessary is in case of intended change of the distribution of competences as laid down in the federal constitution to the detriment of the states. In other matters, the Federal Council can only delay approval of a law, as the National Council must again deliberate on the bill but in so doing may override the objection raised by the Federal Council.

2.1. Parliamentary budget process

According to the Austrian constitution, the government's budget proposal must be presented to parliament no later than eight weeks prior to the start of the fiscal year. An all-party steering group in parliament organises the business of parliament and establishes the exact number of days allowed for each phase of the parliamentary budget process – the first reading, the committee stage, the second reading and the third reading. The time allowed for each stage tends to be rather stable from one year to the next.

The government's budget proposal is an extensive set of documentation totalling over 4 000 pages, including the budget itself, i.e. the legal document authorising expenditure. The budget contains about 1 200 separate appropriations for expenditures. In addition, separate supplements are prepared for each budget chapter (one or more per ministry) at a great level of detail. These are however not enacted into law. This documentation can be characterised as legalistic and input oriented. A separate legal document detailing the number of staff permitted in each government entity, the *Stellenplan*, is also enacted into law at a high degree of detail. The remainder of the budget documentation is explanatory and narrative in nature, and generally more user friendly. The budget chapters are further discussed in sub-section 3.2.

Austria operates on the “double law” principle whereby any expenditure must be authorised in **both** the budget and in substantive legislation. This means that laws establishing entitlement programmes do not confer automatic authority to spend. Conversely, separate substantive laws are required for any amount to be spent that is authorised in the budget. As a result, a special omnibus bill reconciling the budget proposal and the many substantive laws accompanies the budget. However, this is not considered part of the official budget documentation.

Box 7. Parliamentary budget timetable¹

Late October	Finance minister's budget speech. General debate on the budget (first reading).
Early November	Budget Committee examines the budget.
Late November/ early December	Plenary debate and vote on each chapter of the budget (second reading).
Late November/ early December	Budget as a whole approved by parliament (third reading).
1 January	Start of fiscal year.

1. This timetable refers to a “typical” budget year as discussed in section 1.

2.1.1. First reading

The parliamentary budget process begins with the delivery of the budget speech by the Minister of Finance in late October. This is a very high-profile event. The speech discusses the budget in broad political and economic terms as well as highlighting specific initiatives. It generally lasts one hour.

Following the speech, parliamentary budget debate is adjourned until the following day. This is to give members of parliament sufficient time to examine the budget and formulate responses to the government's proposal. (In addition, members of parliament are given copies of the government's budget proposal on a confidential basis on the evening before the speech.)

The entire day (8-10 hours) following the speech by the Minister of Finance is devoted to deliberation of the government's budget proposal, with members of parliament either praising or criticising it. The Minister of Finance responds to these statements at the end of the day. The minister limits his/her comments to general themes, and directs more detailed and programme-specific questions to the respective ministers in subsequent phases of the parliamentary budget process.

At the conclusion of this debate, the budget proposal is referred to the Budget Committee for further scrutiny.

2.1.2. Committee stage

About one to two weeks later, the Budget Committee commences its examination of the budget. The Budget Committee consists of a main committee and a number of subcommittees. The main committee is made up of 26 members of parliament, with each party being represented in proportion to its overall number of seats in parliament. This committee is responsible for the budget proposal as a whole and also for in-year monitoring of budget implementation (see Box 8). There are 13 subcommittees which are responsible for examining the budgets of individual ministries.¹ These subcommittees consist of the members of the respective sectoral committees. For example, members of the Education Committee examine the budget of the Ministry of Education as members of the relevant subcommittee. It is important to note that each subcommittee is chaired by the chair of the main budget committee. Each subcommittee also includes members from the main committee who represent each political party.

The Budget Committee's examination takes place over a one-week period. It starts with the main committee examining the government's overall budget strategy, known as the "budget hearing". This generally last three to four hours. It is in many ways a repetition of the statements and questions made during the first reading of the budget proposal in plenary session but benefiting from additional time to study the document. During this examination,

Box 8. In-year monitoring of budget implementation

The Minister of Finance is required to report to the main Budget Committee on a quarterly basis on the implementation of the budget. In strictly legal terms, the minister must report on the use of any delegations from parliament, *i.e.* virements between appropriations (see section 3.2), and any authorisations from parliament, *i.e.* entering into long-term commitments. These reports are also a venue for general discussion on progress with implementing the budget, developments in key programmes, and the likely need for any supplementary budgets.

each political party nominates one outside expert (*i.e.* not an MP) to take a seat on the committee. In fact, most of the discussion takes place between the Minister of Finance and these outside experts. This 3-4 hour examination is the only time that the Budget Committee's meetings are open to the public.

The examination then moves to the subcommittees. The budget(s) of each ministry are examined by the respective subcommittee over an intensive one-week period with about 3-6 hours being spent on each ministry. The questions here are by definition more detailed and programme-specific than in the "budget hearing". Again, it is the respective minister who responds to the questions of the subcommittee. Each sectoral committee completes its work with a report to the main Budget Committee. There are no separate majority and minority reports.

Box 9. Executive-legislature protocol

It is a long established protocol that only ministers respond to the questions of members of parliament and that civil servants do not interact directly with members of parliament. The minister is, however, assisted by a number of civil servants for his/her appearances before parliamentary committees. For example, over 35 officials from the Ministry of Justice attended their respective budget subcommittee to assist the minister, and the Ministry of Justice is one of the smallest ministries. Similarly, all written questions by members of parliament are addressed to the minister or the state secretary, who respond in turn.

The main Budget Committee then reconvenes to discuss the reports of the subcommittees and to consider any amendments to the budget. There are essentially three types of amendments that emerge:

- First, the government may introduce amendments.² These can be technical corrections, responses to new political pressures, or – most commonly – the result of negotiations between the coalition parties on sensitive issues that were not finalised prior to the introduction of the budget. The Minister of Finance would have mentioned these areas in his/her budget speech. It should be noted that these negotiations do not take place in the Budget Committee but are rather conducted by the leaders of the coalition parties, who then inform parliament of the decisions. The subsequent amendments may increase total expenditures or – more commonly – involve reallocations of expenditures within the same total level of expenditures.
- Second, the Budget Committee may introduce amendments on its own initiative. This can sometimes be a response to the lobbying efforts of spending ministries – who “lost” in negotiations with the Ministry of Finance – for increased expenditure. It is extremely rare that this practice is successful, but it does happen and is regularly attempted.
- Third, opposition parties may propose amendments. As their amendments would by definition not be agreed by the majority in the committee, the opposition will only announce their amendments in the Budget Committee, and then formally introduce them in plenary session during the second reading of the budget. There is no possibility for the majority to “kill” amendments in committee.

The conclusions of the Budget Committee form the basis for the next reading of the budget.

Box 10. Analytical capacity of parliament

All analytical capacity in parliament is channeled through the respective political parties; there is no independent, non-partisan research capacity. In addition to each member of parliament having a personal adviser and receiving a research stipend that may be used as he/she wishes, the political parties receive general research funding in proportion to their number of seats in parliament. Each of the political parties has one to three staff persons specialised in budgeting issues.

2.1.3. Second reading

About one to two weeks following the completion of the Budget Committee's examination, the second reading of the budget takes place in plenary session. It lasts about one week. This is a high-profile event with all members of parliament and ministers in attendance throughout the week.

The second reading commences with the chair of the Budget Committee highlighting its conclusions and outlining agreed amendments and their rationale. Following this, the budget chapters of each ministry are examined in turn. About two to three hours are generally spent on each ministry. The discussion is launched by a senior member of the relevant budget subcommittee. Again, each minister responds to the questions concerning his/her ministry. A separate vote is taken for each budget chapter.

Opposition parties introduce their amendments at this stage. The parties consolidate their proposed amendments into one proposal for each ministry's budget chapter(s). Due to high party discipline, amendments are proposed in the name of the party, not in the name of an individual member of parliament. This means that an individual member of parliament must first seek the approval of his/her political party. It should be emphasised, however, that there is nothing except party discipline to stop an individual member of parliament from putting forward an amendment.

The total amount of approved amendments is less than a half per cent of total expenditures, with nearly all of them accounted for by the government's own amendments. Opposition amendments introduced during the second reading are uniformly rejected.

Box 11. Provisional budgets

In exceptional circumstances – for example, during election years – when a budget is not enacted in time for the start of the fiscal year and where parliament has made no specific interim provisions in this regard, the constitution calls for automatic provisional budgets to take effect.

If a draft budget has been presented to parliament, its provisions apply for the first four months of the year (one-twelfth of the budget per month). Following that time period, the provisions of the last budget approved by parliament apply (one-twelfth of the budget per month). If a draft budget has not been submitted, then the limits established in the last budget approved by parliament apply (one-twelfth of the budget per month). Moreover, fiscal debts may only be entered for up to half the amount of the reference budget. This effectively precludes any new initiatives being launched under such conditions.

2.1.4. *Third reading*

The third reading consists of a vote being taken on the budget as a whole. It takes place immediately following the conclusion of the votes on each chapter. There is no separate debate during the third reading.

As the Federal Council has no role in the budget process, the approved law is sent to the President of the Republic for signature. The budget is thus in place about one month prior to the start of the year.

2.2. **Conclusion**

Due to historical, constitutional and political reasons, there is no single area of budgeting that differs as widely among OECD member countries as the role of parliament. With that caveat in mind, this section concludes with a brief comparison of the Austrian parliamentary budget process with best practices in other OECD countries.

The **time allocated** to the discussion of the budget in Austria is short. The budget is presented two months in advance of the fiscal year, whereas three months is common in most OECD countries. Moreover, the budget is deliberated very quickly in parliament within the short two-month time period. This applies especially to the committee stage. This timing would appear to be a function of parliament's limited influence on the budget.

Notwithstanding the above, there is no **institutional framework in parliament for promoting fiscal discipline** at present. The proposed introduction of a medium-term expenditure framework and a budget strategy report which will set a legally-binding maximum ceiling on total expenditures ahead of the deliberation of individual appropriations will rectify this lack; such a proposal is in line with OECD best practices.

The present **committee structure** for deliberating the budget is exemplary in most respects, as it seamlessly links the discussion of finance (budget committee) and policy (sectoral committees), in administrative terms. This division of labour could be strengthened further. The Budget Committee could, for example, concentrate more on the aggregates. It could give voice to the "macro" budgetary issues, overall priorities between different chapters, and fiscal sustainability. This is especially important with the introduction of the budget strategy report. The sectoral committees could also concentrate on integrating further the budgetary and substantive policy aspects of their work. This is especially important if performance and results information is to be integrated into the discussion, as envisaged by the proposed budget reforms. The sectoral committees could then be in a position to link budget, policy and performance. It is worth noting, however, that experience shows that the introduction and use of performance and results information by parliaments is difficult in many OECD member countries.

Box 12. Court of Audit

The Court of Audit is an independent body responsible for the external audit of the federal government and acts as an agent of the Austrian parliament. Its official goal is to “attain the most effective use of public funds, i.e. the reduction of costs and/or the increase in benefits when spending public monies.” The audits focus primarily on financial compliance.

The reports of the Court of Audit are sent to the respective entities being audited and to parliament, where they are first considered by a dedicated Public Accounts Committee and are then submitted to parliament as a whole. If the reports are discussed in plenary session, the president of the Court has the right to take the floor. The Court of Audit has no authority to sanction audited entities. It is for the parliament to take any action on the audit reports.

In addition to its independent audit programme, the Court of Audit accepts requests for specific audits by parliament. However, these are limited to three at any given time.

The Court of Audit has a staff of 330 persons. Its president is appointed for a 12-year, non-renewable term by the National Council. All audits are performed in-house by the Court of Audit.

The Court of Audit has the authority to audit any aspect that has financial consequences for the central government. In addition to auditing core federal government functions, the Court of Audit audits all states, on behalf of the state parliaments, and companies where the central government has a majority shareholding as well as companies owned by states and municipalities with a population of more than 20 000 inhabitants.

The continued use of the **detailed input-based supplements for each budget chapter** (discussed further in section 3) – despite being not legally binding – is anachronistic to the spirit of the overall budget reform effort. While recognising that the use of detailed supplements may be a transitory measure in Austria, OECD country experience shows that “culture change” is important to the success of reform efforts. Supplementing input information with performance and results information – rather than replacing the input information – is more likely to detract from the success of the reform effort.

3. Budget implementation and government management issues

This section consists of six distinct sub-sections that briefly describe the organisational structure of government, the execution of budget appropriations, human resource management, financial management and reporting, the

management of real estate, and the use of performance and results information. The section concludes by highlighting current practices and the impact of the proposed budget reforms in Austria *vis-à-vis* best practices in other OECD member countries.

3.1. Organisational structure of government

The Austrian government is divided into 13 ministries (see Box 13), including the Federal Chancellery (Prime Minister's Office). This organisational structure has remained fairly constant over time. Changes in the number of ministries, and their respective competencies, generally occur when a new government takes office.

In the past, the ministries were large, vertically-integrated, unitary organisations. All operational aspects of the ministry, including commercial ones, took place in one of the constituent directorates of the ministry. In practical terms, there were no separate subsidiary organisations (agencies).

Each directorate is headed by a director-general who typically reports directly to the minister for his/her respective area of work. It is highly unusual for there to be a separate position – secretary-general – as the overall head civil servant in the ministry, although one director-general may be designated as the “first” director-general. In the more politically sensitive ministries,

Box 13. List of Austrian ministries

- Federal Chancellery (including a Federal Minister for Women, Media and Civil Service).
- Ministry for European and International Affairs.
- Ministry for Education, Arts and Culture.
- Ministry of Finance.
- Ministry for Health, Family and Youth.
- Ministry of the Interior.
- Ministry of Justice.
- Ministry of National Defence.
- Ministry of Agriculture and Forestry, Environment and Water Management.
- Ministry of Social Affairs and Consumer Protection.
- Ministry of Transport, Innovation and Technology.
- Ministry of Economics and Labour.
- Ministry of Science and Research.

there is often a political state secretary in addition to the minister; usually this state secretary will be from the coalition partner of the minister's party. Each minister has a large "cabinet" of political advisers (non-civil servants), typically 15 to 20 persons.

In the early 1990s, Austria instituted **dramatic reforms to the organisational structure** of the government. These took the form of breaking discrete parts of ministries into independent bodies reporting to boards. The radical nature of this reform to Austria's highly conservative system cannot be overstated.

The bodies are separate legal entities which operate at arm's length from the government. They are exempt from the various central management regulations described in this section. They receive their appropriations as one lump sum, often on a multi-year basis. Their new staff is hired under private sector employment contracts although existing staff, "inherited" from the old organisation, retain their civil service status. These bodies are collectively referred to as "**hived off**" or "outsourced" entities in Austria, although they remain within the government but distinct from ministries.

These bodies were generally established as either private limited liability companies (*GmbH*) or as specific public entities/agencies (*Anstalt öffentlichen Rechts*). The first form was not only applied for commercial entities but also for core government entities including, for example, the debt management office. The rationale for using this corporate form was entirely pragmatic. The entities enjoyed an established corporate governance structure – i.e. clearly defined roles of owner, board of directors and chief executive, respectively – that had been tested over time and had a judicial case history. Although a law is always necessary for setting up such an entity, it was far more convenient to apply the existing company law framework (sometimes with alterations) than to set out a completely new organisational form for each entity. The *GmbH* form was preferred because it allows for easier intervention by the owner and is thus more appropriate in a government context than a public limited company (*AG*).

In line with private sector corporate governance in Austria, the boards of directors of these entities have representatives of both the shareholders and the staff. The size of the boards varies greatly – from 5 persons to 15 in the cases studied for this review. The shareholder representatives can be civil servants, academics or other outside parties. Most boards are chaired by a civil servant from the parent ministry. The Ministry of Finance has a representative on all boards. The boards of directors hire the chief executive. It is striking that a large number of chief executives were recruited from the private sector or were former members of ministerial "cabinets". The boards of directors set the salary for the chief executive in line with private sector practice.

The transformation of these entities was grand in scale. About 100 such bodies have been created, with more than 55% of government employees now working in these entities. Prior to these reforms, 100% of government employees worked in the ministries. It should be noted that the corporatisation of Austrian Railways and Austrian Post accounted for one-third of this reduction.

In terms of operational efficiency and effectiveness, the establishment of the entities is generally acknowledged to have been successful, and often very successful. However, strong concerns were voiced as well. First, the Constitutional Court voiced “scepticism” about the appropriateness of using the private sector corporate form for carrying out inherently governmental functions. Second, parliament complained of less transparency and reduced accountability; ministers would typically say that they were not in a (legal) position to respond to questions by members of parliament concerning the operations of these arm’s-length entities. Third, the public sector unions were strongly opposed to this reform – although the government conceded to them the right to represent all the employees of these entities, including new hires employed on the basis of private sector employment contracts. Finally, there was general concern about the proliferation of these bodies and the “hallowing out” of government.

In response, a new reform model was developed at the end of the 1990s, referred to as “**flexible agencies**”. This new model did not change the position of the already established arm’s-length entities, but only applied to new cases. The key difference between the two is in terms of accountability. The new flexible agencies remain within the ministry. They are not separate legal entities and they do not have boards of directors. The minister is directly responsible for them in both political and legal terms.

Regarding managerial flexibility, details are negotiated on a case-by-case basis in a four-year contract between the agency, the parent ministry and the Ministry of Finance. The flexible agencies generally receive a lump-sum appropriation on a multi-year basis, similar to the arm’s-length entities. The staff of the flexible agencies is employed as other staff in the ministry, although they have more opportunities for receiving performance pay. In this respect, the flexible agencies are more constrained than the arm’s-length entities.

So far, 14 such flexible agencies have been created. This small number reflects both the fact that the “obvious candidates” had already been transformed into arm’s-length entities, and that it may take some time for a widespread “cultural change” in the administration to occur, in order for individual flexibility and responsibility to be preferred over the classical public sector approach. The concept of flexible entities is planned to be extended as part of the budgeting reforms.

3.2. Execution of budget appropriations

The budget is divided into 29 chapters (see Box 14), including six for organs of state such as the presidency and the parliament. Most ministries

Box 14. List of budget chapters

- 01 Presidency of the Republic of Austria.
- 02 Parliament.
- 03 Constitutional Court.
- 04 Appellate Administrative Court.
- 05 Ombudsman.
- 06 Federal Court of Audit.
- 10 Federal Chancellery.
- 11 Interior.
- 12 Education and Culture.
- 13 Art.
- 14 Science.
- 15 Social Security.
- 16 Social Security Funds.
- 17 Health and Women.
- 19 Family Policy, Generations and Consumer Policy.
- 20 Foreign Affairs.
- 30 Justice.
- 40 Defence.
- 50 Finance.
- 51 Cash Management.
- 52 Taxes.
- 53 Intergovernmental Fiscal Relations (transfers to subnational entities).
- 54 Government Property.
- 55 Pensions (for civil servants).
- 58 Federal Debt.
- 60 Agriculture, Forestry and Water Management.
- 61 Environment.
- 63 Economy and Employment.
- 65 Transport, Innovation and Technology.

have one chapter but there are several examples of ministries having multiple chapters. This applies especially to the Ministry of Finance where public debt, intergovernmental transfers, and similar financial activities each constitute a separate chapter. There are no cases of two ministries jointly having a chapter. Each chapter is further divided by organisational units and specific programmes. All in all, there are 1 200 appropriation line items in the budget as enacted by parliament. About 10% of the appropriations contain 80% of total expenditures. In fact, a great number of appropriations simply have a nominal amount in order to keep the budget line “alive”. There has been an ongoing effort to consolidate line items in recent years. For example, individual embassies used to have their own line items; now there is one line item for all embassies.

In addition, a supplement to the main budget is presented for each chapter, showing expenditures at an extreme level of detail, with each object of expenditure presented separately. This document has no formal legal status, but parliament appears to view it as an integral part of the budget and parliamentarians consider it essential for assessing and discussing the budget. It is unclear to what extent this supplement is adhered to, since public information on budget implementation is only presented at the level of the budget as approved by parliament.

Each line item can have up to eight types of appropriation:

- personnel – mandatory;
- other operating expenditure – mandatory;
- other operating expenditure – discretionary;
- investment – mandatory;
- investment – discretionary;
- subsidies – mandatory;
- subsidies – discretionary;
- loans – repayable.

The appropriations marked as mandatory refer to the fact that a specific law mandates the specific amount of expenditure or includes a formula or criteria for calculating the amount.

“Personnel – mandatory” refers to all expenditure in accordance with the posts contained in the *Stellenplan*, discussed previously and described further in sub-section 3.3 below. More “casual” employment – such as consultants – would be classified as “other operating expenditure – discretionary”. The category “other operating expenditure – mandatory” is defined broadly to include transfer payments. Examples include unemployment insurance, old-age pensions, and fiscal transfers to the states. The lump-sum payments to arm’s-length entities and flexible agencies are also classified as “other

operating expenditure – mandatory”. The category “investment – mandatory” is largely obsolete; it was the category for appropriations or capital injections to state-owned enterprises which had special capital expenditure plans approved by parliament. The category “investment – discretionary” includes all capital investment of over EUR 400 in value. This low threshold therefore captures furniture and office equipment. The category “subsidies – mandatory” includes transfers from the European Union for agricultural support. The remaining two categories are very small. The one marked as “loans – repayable” includes conditional (research) financing to companies and similar.

Another important difference between appropriations that are marked as mandatory and the others is the degree of in-year control exercised by the Ministry of Finance. Mandatory appropriations do not require pre-approvals by the Ministry of Finance, whereas other expenditures for transactions of over EUR 73 000 (equivalent to 1 million Austrian Schillings) require pre-approval by the Ministry of Finance. The Ministry of Finance does however give higher thresholds, or has given blanket pre-approvals, for some ministries in recognition of the quality of the budgeting and financial management function in those ministries.

The Ministry of Finance has traditionally taken advantage of an authorisation contained in previous budgets to lower appropriations by up to 3% in order to promote fiscal consolidation. This applies only to non-mandatory appropriations. Most recently, however, this practice has been abolished, with all adjustments taking place in the budget formulation phase.

In principle, virement of funds between organisations, programmes and types of appropriation is not permitted without the prior approval of parliament. However, in certain cases parliament delegates such authority to the Minister of Finance in the budget documentation, although not as a blanket authority but rather attached to specific budget lines – *i.e.* allowing certain moneys to be moved from one specific appropriation to another specific appropriation when certain conditions are fulfilled. For example, the 2006 budget includes 17 paragraphs (taking 14 pages), each setting the conditions for reallocation concerning specific appropriations.

Similarly, parliament has delegated authority to the Ministry of Finance to carry forward appropriations in limited instances where the need for payment is certain but the timing is not. Earmarked revenue not used during the year is also carried forward. In both these cases, the carried-forward amount may only be used in subsequent periods for the original purpose of the appropriation. Due to the restrictions on their use, it is often difficult for ministries to spend this amount, and many prefer to build up their own “rainy day” reserve funds. As a result, such accumulated funds amounted to EUR 3.7 billion at the end of 2006.

The budget appropriations constitute a **maximum** amount that can be spent. There is no requirement to spend all moneys appropriated by parliament.

Borrowing against future appropriations is not possible. The arm's-length entities can in theory borrow money on the capital market in their own name. In practice, this occurs only in exceptional circumstances and requires the *de facto* approval of the Ministry of Finance.

All appropriations are made on an annual basis. The reference to multi-year appropriations in the previous section is an agreement between the Ministry of Finance and the respective entities, subject to the approval of parliament each year.

Austria follows the principle of gross budgeting, with expenditures and any associated revenues treated separately. Line ministries can however take on more costs in response to rising user-financed demand, with the approval of the Ministry of Finance. Again, such approval is not required for the hived-off entities or the flexible agencies.

The federal budget contains a central contingency fund (*Pauschalvorsorge*) in order to cope with certain unavoidable or unexpected expenditures not foreseen in the budget, such as natural catastrophes. The size of this fund in 2006 was approximately EUR 400 million. This amount is not spent by default, but depends on the actual need during the budget year.

Box 15. Monthly meetings between spending ministries and the Ministry of Finance

The Ministry of Finance has separate monthly meetings with each spending ministry. Ostensibly, these meetings are to discuss the cash-flow needs of each spending ministry for the following month (see section 3.4). In practice, these meetings cover all aspects of budget implementation, including any deviations – both in substantive and financial terms – and any requests for the Ministry of Finance to exercise delegated authorities from parliament to amend the budget, as well as any other relevant issues.

3.3. Human resource management

Human resource management is exercised by the Federal Chancellery (Office of the Prime Minister). Matters related to remuneration are however exercised jointly with the Ministry of Finance. Starting in 2001, the Chancellery ceased involvement in individual personnel actions – hiring, promotion, and dismissal – except for the highest positions. In the new decentralised environment, each ministry is responsible for its own personnel actions. The Chancellery is now mainly concerned with overall co-ordination and the

establishment of general regulations and standards which the ministries must observe. The arm's-length entities are not subject to these regulations, although they are encouraged "to follow their spirit".

As previously noted, a most conspicuous feature of the Austrian human resource management framework is the detailed manpower controls, the *Stellenplan*, which are approved by parliament together with the budget. The plan sets the maximum permissible number of posts at the level of unit within a ministry and at each grade of staff. New recruitments and reassignments are only possible if there is a vacant post. The Chancellery verifies at the beginning of each month that the number of posts is filled. The government cannot adjust the number of posts in-year but it is possible to reallocate posts within a ministry by government decree as long as no additional costs arise. However, this is a complex, non-routine procedure.

Box 16. **Recruitment of directors-general**

The positions of director-general are advertised as for other positions, but specific selection criteria exist. For each position, a special panel (appraisal commission) is formed to consider the applications. The panel consists of four persons, two representing the employer and two representing employees. In case of a "tie", the votes of the employer's representatives are decisive.

The panel must classify all applicants as either very well suited, well suited, or not suited. They may classify multiple persons in the top category. The panel recommendations are sent to the respective minister for decision. He/she may select any of the applicants regardless of the panel's recommendations, even one classified as not suited. If a candidate who was assessed as well suited is not chosen, the staff association (*Zentralausschuss*) can request an explanation from the minister.

Directors-general are appointed for a period of five years. The positions are then re-advertised, but the incumbent director-general may be re-hired for multiple periods without going through a new panel process. A minister cannot dismiss a director-general; a director-general can only be replaced in very specific circumstances, for example in case of significant structural changes.

It should be noted that Austria had a long-established informal practice, known as *proporz*, to maintain a balance in the numbers of senior civil servants associated with each of the two dominant political parties. This practice has however declined in recent times.

There are two types of public employment framework in Austria: employment under public law (the classic, tenured civil servant position) and employment under private law (contractual, similar to that of private sector employment). As a result of various reform measures, service under the public law regime has now been widely replaced by employment under private contracts. In most respects, however, there are no significant differences between the two. The public law employment framework has been repeatedly updated in recent years to bring it in line with the private law framework. In fact, the government's objective is to have one uniform employment framework for all federal employees which parallels the private sector one, with special regulations only for areas such as police officers, judges, tax investigators and similar positions that exercise the authority of the state.

All government positions are advertised and open to all qualified applicants. In order to ensure merit-based hiring, each applicant must undergo a specific examination to test his/her competency for the post. In most cases, this involves a written test which must conform to the standards set by the Chancellery. Service contracts may be concluded for a specified or unlimited period of time. Usually every new service contract is agreed for a specified time period. A probationary service contract can also be concluded; it must not exceed one month, and it can be suspended at any time by both parties. For civil servants hired on a public law basis, an initial probationary period lasts six months. Upon hiring, staff will generally remain with the same ministry for the duration of their career. It is very rare for officials to move to another ministry and even rarer for officials to move to the private sector. However, efforts are being actively made to promote mobility between ministries. Dismissing staff for poor performance is difficult, if not impossible in practical terms. This also widely applies to civil servants with contracts based on private law.

Salaries are set in an annual salaries law approved by parliament. The salary scales are uniform within the employment regimes and throughout the government, with different grades according to the qualification of the staff and multiple seniority-based steps within each grade. Various groups of employees may also have disparate special allowances in addition to their basic salaries. In fact, harmonising this "jungle of allowances" has been a key government objective in recent years. Some specialised occupations – IT professionals, air force pilots – receive additional retention allowances; this applies to about 2 500 people in total. Initial efforts have been made to introduce performance pay. A maximum amount equivalent to a half of one month's salary can be paid as such. The performance pay regime applies especially in the flexible agencies.

The public sector is heavily unionised. Despite the unilateral setting of salary scales by parliament in formal terms, intensive and centralised collective

Box 17. Downsizing the public sector

Austria has in recent years emphasised the downsizing of public sector employment. Explicit across-the-board targets were set for staff reductions. Initially, teachers and police officers were excluded from the cuts, but most recently only teachers are exempted. The reductions were achieved by natural attrition – i.e. no new hires for retiring staff – and by offering early retirement. It is estimated that an employment reduction of 2.5% was achieved through natural attrition and an additional 1% through early retirement. There were no involuntary dismissals. It should be highlighted that these are real reductions, not ones achieved through organisational changes.

The early retirement system was heavily used by some of the hived-off entities. They were able to achieve efficiency gains in their own operations by placing staff on early retirement, as such benefits are paid from a central account in the Ministry of Finance and not from the entity's budget. In response, the relevant regulations were changed and the Ministry of Finance now must agree to all cases of early retirement in these entities.

Austria is also engaged in an effort to redeploy staff from areas where surpluses exist to areas where shortages exist. An outstanding example is the redeployment of immigration and customs officials to the police force by special law following the abolishment of border controls with the Schengen agreement. However, redeployment is an extremely sensitive issue, with strong resistance from existing staff and their unions.

Box 18. Pension reform

In 2005, a new general pension law (APG) replaced different pension schemes for a number of occupational groups. At that time, the pension system for federal civil servants was harmonised with those of the private sector so there is now only one system for both categories. The previous system for government employees was generous, and this reform represented a steep reduction in benefits. It is estimated that the reform reduced the pensions of government employees by 40%. This was achieved principally by calculating retirement income on the basis of the average of lifetime income, rather than on the last income period prior to retirement. The new APG will be introduced over a 50-year transitional period, with a gradually increasing part of future pensions coming from the new system. Employees born before 1955 will not be affected by the 2005 reform, and people entering the labour market as of 2005 will only be subject to the new system, which is a pay-as-you-go system.

bargaining negotiations take place between the government (Chancellery and Ministry of Finance) and the unions. The government then uses its majority in parliament to legally enact the conclusions of these negotiations. Public sector strikes are illegal but, at critical points in the negotiations, unions might hold “information meetings” for their members, at which time staff stop working. Such actions have not been punished in Austria.

3.4. Financial management and reporting

At present, Austria’s accounting is on a cash basis. The proposed budget reforms call for the adoption of accrual basis accounting. The recent comprehensive upgrading of the IT infrastructure (SAP) explicitly envisaged this reform. Accounting standards are set by the Ministry of Finance with the “consent” of the Court of Audit; there is no independent or advisory accounting standards board.

The cash management system is centralised, with all payments and expenditures going through one single account located at the BAWAG/Postal Savings Bank (previously partly government owned but now fully privatised). Any balance at the end of the day in this account is transferred to the government’s account at the Central Bank for overnight investment. Government bodies do not have their own bank accounts, either in real or notional terms. Therefore, there is no system of interest receipts and payments to government bodies to promote good cash management practices during the year.

There is however one significant exception: the accumulated carry-forwards of unused appropriations are maintained in special accounts in the names of the respective bodies. These significant balances (EUR 3.7 billion at the end of 2006) are therefore excluded from the government’s overall cash management system, i.e. they are deposited in separate stand-alone accounts, not notional accounts.

The government prepares a monthly cash apportionment plan at the beginning of the year. This is on the basis of submissions from individual ministries which must be updated monthly (cf. the monthly meetings). About three-fourths of the cash flow is fixed from year to year. For the remainder, the Ministry of Finance seeks specific dates for major payments in order to improve its daily cash management. This is now done on an *ad hoc* basis, but it is envisaged to automate this process. The apportionment plan is an internal government document only.

Requests for payments are sent by individual ministries to the Federal Accounting Agency (see Box 19) for processing. The agency verifies that the ministry has pre-audited the payment request and then verifies that the money for this item is available in the monthly apportionment plan. These payment requests, including the invoice, were traditionally made by paper but

are now being made electronically through the so-called ELAK system. The Federal Accounting Agency then instructs the BAWAG/Postal Savings Bank to transfer the money into the recipient's bank account electronically. It is a highly advanced system with nearly all payments being made electronically. Austria relies on the giro system for non-electronic transactions; it does not have its own "retail" treasury offices. The length of time from the payment request to actual payment is very short – overnight in most cases.

The quarterly reports on budget implementation presented to parliament as part of the Minister of Finance's regular meetings with the Budget Committee have traditionally constituted the only external in-year reporting by the government. These quarterly reports show the government's receipts and outlays on an aggregate basis. Most recently, the Ministry of Finance has started publishing monthly online information on the government's revenues and expenditures. Expenditures are shown at the level of each ministry (budget chapter) and compared with the previous year. No comparisons are made with the current year's apportionment plan.

Box 19. **Federal Accounting Agency**

The Federal Accounting Agency was created and set up in May 2004 and employs approximately 600 staff. Earlier, each ministry and some other entities (32 in total) had their own accounting departments. By legislation, the agency is responsible for three broad tasks:

- Payments and cash flows: optimising the flow of funds for the total federal budget.
- Financial accounting, including checking bookkeeping entries and accounting records, monthly check of actual expenditures *versus* planned expenditure, and preparing the federal accounts.
- Operational audit such as internal annual audit of ministries and subordinate bodies with a focus on accordance with regulations and lawfulness.

The responsibility covers all central government expenditures, including all ministries and organs of state, and may soon also cover hived-off entities. All in all, 50 million accounting transactions pass through the agency every year, with a payment volume of EUR 50 billion.

The agency is financed through fees charged to its users. The Ministry of Finance bears the cost of the IT system, and the fees for transactions and audits are set in a contract with the Ministry of Finance. Each ministry is charged according to the amount of transactions and number of audits.

The audited annual financial statements are presented in late September, nine months from the close of the fiscal year.

Austria does not have a system of capital charging *per se*. However, it has moved its real estate holdings into a separate corporation which leases them back to the government ministries at prices that take account of capital costs. This is further described in the next sub-section.

3.5. Management of real estate

In 1992, Austria founded the Federal Real Estate Corporation, a government-owned private limited liability company. It is responsible for all government buildings (except historical palaces, such as the parliament and Hofburg, and military buildings). It is responsible for maintaining the real estate and selling superfluous property, as well as constructing, purchasing and leasing property as required. The value of its total assets exceeds EUR 3 billion.

The company operates on a completely commercial basis and charges market rents from its tenants. Previously, real estate was provided “free of charge” to government bodies. This reform has increased the cost consciousness of tenants as well as increasing the transparency of these costs. Federal entities are not required to lease their property from the company. They can enter into lease agreements with private sector companies, although this is extremely rare.

3.6. Use of performance and results information

The Austrian budget process has traditionally not employed performance and results information to any significant degree, and its use is currently in its infancy. On a trial basis in 2002, the Ministry of Finance requested each ministry to submit outcome and output information on their programmes along with their budget requests. The results were disappointing but not necessarily surprising for such a one-off trial exercise. The arm’s-length entities and the flexible agencies do use such information to a greater extent. The quality of this information varies greatly, but in general it could be characterised as incomplete in terms of the activities covered, often process oriented, and geared to the internal operations of the entity concerned rather than an external audience. A summary performance and results report (*Leistungsbericht*) is published annually by the Chancellery.

The Ministry of Finance has adopted a long-term view on how best to improve the use of performance and results information in the budget process, as called for in the planned budget reforms. The Ministry of Finance does not want to take a leading role in defining individual outcomes and outputs. Achieving the buy-in of spending ministries is viewed as imperative for this information to be useful. The Ministry of Finance views its role as establishing principles

and minimum standards in terms of the comprehensiveness, usefulness and comparability of the information. This information will be used to inform budget decisions; no explicit and automatic linkages to the level of appropriations are envisaged.

3.7. Conclusion

Austria has undertaken significant reforms in the area of budget implementation and government management in recent years. In many respects, the organisational renewal efforts – the hived-off entities – launched these reforms, as they represented such a radical break with past practices. The “merging” of the employment legislation between the public sector and the private sector, as well as the reform of civil service pensions, are also formidable achievements. Austria was a leader among OECD member countries in adopting new means to manage the government’s extensive real estate holdings. The budgeting reforms currently under discussion will further deepen the improvements in budget implementation and government management.

The reforms will entail further **consolidation of budget appropriation** where Austria has already made considerable progress. The current reforms will also need to modernise (simplify) the types of appropriations and the account structure used. The status of the extensive supplements for each budget chapter should be revisited.

The reforms call for a general system of **carry-forwards of unused appropriations**, replacing the current highly restrictive system. This is in line with OECD best practices. It has not yet been decided whether savings will be kept in one central fund at each ministry or at the level where the savings are actually realised (directorate, agency, etc.). If the former, there is a danger that this will decrease the incentive to save. It is also important to limit the types of appropriations that can be carried forward. In this regard, a distinction can be made between funds that are under the direct control of a manager, such as administrative costs (wages, intermediate consumption), and transfer programmes that are simply administered (entitlements, subsidies). In the latter case, a ministry may reap windfall gains due to circumstances beyond its control. Therefore, the envisaged reform in Austria is to have a separate treatment of administrative funds and appropriations for transfers and entitlements.

The integration of the current stand-alone accounts for carry-forwards (reserve funds) into the government’s overall cash management system should be implemented as a matter of urgency, as is indeed planned in the current reforms.

In the present system, **civil service employment** is controlled by both the nominal amounts in the budget for personnel expenditures and by the number of posts as decided at detailed level in the *Stellenplan*. This appears overly rigid and is exacerbated by the fact that responsibility for the budget and the posts is divided between the Ministry of Finance and the Chancellery (Prime Minister's Office). OECD best practices would call for abolishing the control of posts (the *Stellenplan*) and relying on the budget only. The desire to maintain additional safeguards is however understandable since these are tenured positions. A reasonable compromise, described earlier, may be to reform the *Stellenplan* so that it focuses on the number of posts at a more aggregate level – for example, whole-of-ministry – rather than specifying posts at detailed levels within ministries as is currently the practice. This would serve to increase flexibility yet maintain the additional safeguards.

In return for increased flexibility in the use of inputs, the reforms call for greater use of **performance and results information**. This is in line with developments in all other OECD member countries. However, this is a difficult area, and the pragmatic approach of the Ministry of Finance in implementing this reform is appropriate. Austria can also benefit from the experiences of other OECD countries which have already embarked on these reforms.

The introduction of **accrual accounting** – and retaining the budget on a cash basis – is in line with OECD best practices. The coverage of accrual accounting should be comprehensive, including civil service pension obligations. It should be highlighted, however, that recognising the civil service pension obligation in the balance sheet does not imply a need to immediately finance that liability; the two decisions are separate and distinct. The adoption of accruals entails the use of sophisticated accounting standards. It is important for the body that establishes those standards to have a degree of independence from users in order to ensure their integrity. Consideration should be given to the establishment of an independent (advisory) board for the promulgation of accrual accounting standards.

Austria has recently made substantial efforts to improve in-year **financial reporting** and the first results are in line with OECD best practices.

The envisaged reforms present a large step for Austria to reach the current best practices of OECD member countries. This reform could extend the concept of **“each minister as his/her own finance minister”** from the budget formulation phase, where it is already in place, to the budget implementation phase.

Notes

1. In strictly legal terms, there is **one** subcommittee whose membership changes 13 times depending on which chapters of the budget are being discussed.
2. In strictly legal terms, members of parliament supporting the government introduce the amendments on behalf of the government.

