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This report is devoted to a discussion of the budgeting institutions, processes and practices in Austria. For a discussion of economic and fiscal policy in Austria, please see the relevant OECD Economic Survey of Austria.
FOREWORD

This review of the Austrian budgeting system was carried out at the request of the Austrian authorities and concentrates on the federal budgeting system only.

The report is divided into three chapters. The first focuses on the budget formulation process. The second discusses the role of parliament. The third chapter reviews various aspects of budget implementation and government management issues. Each chapter highlights the government’s reform agenda, current practices, and analyzes the two vis-à-vis OECD best practices.

An OECD mission visited Vienna in September 2006 to prepare this review. During its visit, the mission met with senior officials from the various parts of the Ministry of Finance, the Chancellor’s Office (Office of the Prime Minister) – as well as from several spending ministries and agencies. The mission also met with senior representatives of the Austrian Parliament and Court of Audit. In addition, the mission met with several experts from academia.

The mission would like to express its gratitude and appreciation to Mr. Gerhard STEGER, Director-General of Budget and Public Finance, and Mr. Eduard FLEISCHMANN, Head of Unit, Ministry of Finance, for the generous time they shared with the mission during its stay in Vienna. The warm and cordial reception by the Austrian authorities is gratefully acknowledged.

Finally, the mission would like to thank Mr. Philipp LUST, Counselor, Ministry of Finance, for organizing the mission’s visit and for his invaluable assistance during its stay in Vienna and throughout the preparation of this report.

The views contained in this report are those of the OECD Secretariat and should not be attributed to governments of OECD member countries, or to any organization or individual consulted for this report.

This report was prepared by Mr. Jón R. BLÖNDAL, Deputy Head of Division, and Mr. Daniel BERGVALL, Project Manager, Budgeting and Public Expenditures Division, OECD.

The review was completed in May 2007.
CHAPTER 1

BUDGET FORMULATION

1. 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. The Budget Strategy report 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. Both these documents will be presented in the spring, separate from the annual budget law.
- Making “Each Minister His Own Finance Minister” by consolidating appropriation items within a minister’s responsibility and giving him great(er) flexibility in managing the appropriations under his purview.
- A greater focus on the use of performance and results information to guide budget decisions.

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

Special characteristics

3. This 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

Fiscal Rule Encompassing All Levels of Government

4. To coordinate the budgets of the three levels of government -- federal, state and municipal -- the “Austria Stability Pact” was introduced in 1999. From 2001 onwards, the stability pact has set deficit and surplus targets for all three levels of government for a period of 4 years. The targets are defined in terms of National Accounts, the same basis as applied in the Maastricht criteria for the Economic and Monetary
Union (EMU). The current Austria Stability Pact for the years 2005-2008 calls for a decline in the general government deficit ratio in order to achieve overall balance for the general government in 2008.

5. The need for this rule arises from the fact that about one-third of all government expenditure in Austria is carried out by sub-national 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.

6. The sub-national 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 sub-national government sectors. Regular negotiations are held between the federal government and lower levels of government on the fiscal transfer arrangements.

7. 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 is 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.

8. The Pact includes sanctions for levels of government not fulfilling 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 level, the fines would be on the individual state or municipality that did not fulfil its obligations. These sanctions however have never been used since all levels have lived up to their obligations.

Four-Year Government Coalition Agreements

9. 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).

10. 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 – 2006 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 mid-term to accommodate any new policy initiative that the coalition partners may decide upon and takes into account economic developments since the original Agreement.

11. 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 terms 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 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.

12. 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 ceases to exist in the waning moments of the government’s term of office.

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

**Biennial Budget Planning**

14. For some time, Austria has adopted a biennial budget planning horizon. The budgets are however 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 line with typical parliamentary budget calendar in December and the second year’s budget would be enacted into law early the following calendar year.

15. The primary motive for the adoption of biennial budgeting was political. It was seen as easier to tackle difficult reforms on this basis – “Easier to take the political ‘hit’ once every two years, than every year.” In practical terms, it provided greater funding certainty to spending ministries, especially important for programs 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.

16. This 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 4-year medium term expenditure framework. This new framework does not include bi-annual budget planning, but still leaves the room open for such procedures if the government and parliament chooses to do so.

**Independent Economic Assumptions**

17. All macroeconomic assumptions used in the budget process are prepared by an independent institution, the Austrian Institute for Economic Research (WIFO). 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.

18. 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. Their forecasts are also used in international reporting, such as the annual Stability Programme to the European Commission.

19. There are no “prudency” biases in the forecasts produced by WIFO. Their objective is to forecast as accurately as possible. Their record of forecast accuracy compares favourably to those produced by other organizations – such as financial institutions and other research bodies.
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, 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.

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 required – such as old-age pensions – in order to promote economic development and fiscal sustainability.

The committee consists of 15 members, six members appointed by the federal government (including the chairman), 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 a 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 1 or 2 such reports are usually published per year.

The Secretariat for the Committee is provided by the central bank.

Global Expenditure Ceilings

20. In the mid 1990’s, the Ministry of Finance adopted global expenditure ceilings for each budget chapter. Some ministries may be responsible for more than one budget chapter and therefore receive ceilings for each chapter. For each chapter, the Ministry of Finance issues two global amounts: 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.

21. These aggregate ceilings are however not binding, either legally or 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 importance is the global nature of the ceiling and the freedom for spending ministries to reallocate among their various appropriations.
22. This is further discussed in the next section of this chapter.

**Manpower Controls**

23. Austria employs a comprehensive system of manpower controls – known as the *Stellenplan*. These manpower controls are enacted into law by parliament along with the budget each year. It 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. This is however a too complex, non-routine procedure.

24. These manpower controls have a long history. They must also be seen in the context of the inflexible civil service labour market where it is for all practical purposes 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.

25. This is further discussed in the chapter on budget implementation and government management issues.

**Budget Formulation Process**

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

27. 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.

28. The ministry of Finance will update the baseline forecasts for both revenue and expenditures. The ministry of Finance 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 economic assumptions used will be 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 programs.

29. 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 fiscal room for manoeuvre for the coming budget year.

30. The Minister of Finance will share the conclusions of this exercise with the Chancellor before presenting it to Cabinet. The Chancellor and the leader of the coalition party will discuss the updated baseline from the point of view of their political objectives. This discussion is however 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.

31. To ensure that the outcome of the federal budget is in line with the governments’ medium-term budgetary programme that is laid down in the Coalition Agreement, the Ministry of Finance then prepares budgetary targets for each chapter (one or more per ministry).
32. The result of the above mentioned procedure is the Ministry of Finance budget guidelines which 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 programs, the Ministry of Finance also transmits the accepted forecast methodology for the respective programs.

33. As noted in the previous section, the ceilings are set by the Ministry of Finance on its responsibility. They have not been endorsed by Cabinet and as such not fixed, either legally or 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.

34. At the same time, line ministries will have been collecting proposals from the various parts of the 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.

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<th>Box 3. Budget formulation timetable</th>
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<td><strong>May</strong></td>
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<td><strong>End-June &amp; July</strong></td>
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<td><strong>End August</strong></td>
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<td><strong>September</strong></td>
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<td><strong>October</strong></td>
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<td><strong>Late October</strong></td>
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**Fiscal Year = Calendar Year**

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

36. 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 purpose 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 request are about 10 per cent 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 pre-set 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 on at chapter, not individual appropriation level.

37. For the most politically sensitive issues, it may not be possible to resolve them 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 other coalition partner. (Some issues are not always resolved prior to the budget being introduced in parliament, as is discussed in the next chapter.)

38. Following the conclusions of the negotiations, the “final” expenditure ceilings for each chapter (one or more per ministry) are sent to line ministries. They are to 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 the manpower controls contained in the *Stellenplan*, and assembling necessary changes in substantive program legislation into a single omnibus bill. These are presented to parliament alongside 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, coordination, planning and administrative reform. The other 7 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.

**Conclusions**

39. As noted, a cornerstone of the planned reforms is to introduce a **medium-term expenditure framework** which Austria lacks at present. This 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 to achieve it. As such, the medium-term expenditure framework is built on far stronger foundations than the present merely declarative arrangement and is more likely to enforce fiscal consolidation measures.

40. The draft of the **medium-term expenditure framework** law will be accompanied by the **Budget Strategy Report**, both presented to parliament in the spring of each year. The **MTEF** will be approved by parliament and sets expenditure ceilings on an aggregate level. The accompanying Budget Strategy Report will not be voted on in parliament and elaborate further on fiscal and budgetary policy and is a larger, more comprehensive document. These documents will not discuss individual appropriations, but 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 two laws (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 risks bringing on a discussion of individual appropriation. This would mean that parliament would in essence discuss the same budget twice a year, which may lead to parliamentary fatigue with budget-related work.

41. 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.

42. The ceilings would be set for each chapter of the budget. These chapters will be amalgamated into five categories, or “Rubriks:”
   1) General government affairs, court and security
   2) Employment, social services, health and family
   3) Education, research, art and culture
   4) Economic affairs, infrastructure and environment
   5) Financial management and interest.

43. The ceilings will be binding on the Rubrik 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 on Rubrik level, whereas the limits at chapter level are merely indicative and open for changes within the Rubrik ceiling. Within each “Rubrik,” 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.

44. As a general rule, the ceilings are fixed. Nevertheless, some expenditure such as unemployment programs depend so heavily on the development of the business cycle that a fixed ceiling in advance is not considered feasible. Therefore, a limited number of variable ceilings exist. These ceilings will be 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 like for example the money provided to sub-national governments which depend 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.

45. The introduction of this medium-term framework is very much in line with best practices in OECD Member countries. It is however worth highlighting two issues. First, an 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 escaping the fixed ceilings. The variable ceilings must therefore remain limited and an exception 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 “Rubrik” may serve to hinder effective budget reallocations to cover unexpected expenditure increases. The Austrian model is to have a reserve at the Rubrik level to avoid budget users inflating their forecast to make sure that unexpected development can be financed. There is however a risk that the existence of this reserve is seen as a way of solving unexpected expenditure development or possible 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 program (indirectly) within the same “Rubrik.” This problem has been considered by the Austrian authorities and the aim is to make sure that the reserve fund should be used only as a second alternative after internal savings.

46. In addition to this, the envisaged reforms call for strengthening the role of “Each Minister as His 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 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 the Chapter III, Budget Implementation and Government Management Issues.

47. The Austrian budget is currently on 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 cash basis for budget appropriations. Accruals is best used as an analytical tool, rather than as a decision-making and control mechanism in budgeting.

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**Box 5: The Austrian budget reforms in short**

- Introduction of a rolling 4-year Medium-Term Expenditure Framework with expenditure ceilings for groups of chapters (‘Rubrik’ level) (Chapter 1).

- Separating the discussion on overall fiscal policy and the setting of expenditure ceilings from the annual appropriations budget in the Medium-Term Expenditure Framework, accompanied by the Budget Strategy Report, discussed and enacted in law in the spring, separately from the annual budget (Chapter 1).

- Strengthening the role of line ministers by making "Each Minister as his 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 (Chapter 1).

- Introducing a savings facility by allowing to carry-forward appropriations unused at the end of a budget year (Chapter 3).

- Hand in hand with relaxed input control, the use of performance and results information will increase (Chapter 3).

- The accounting system will be reformed and updated with the aim of introducing accrual accounting, while keeping the budget on a cash basis.
CHAPTER 2

ROLE OF PARLIAMENT

48. 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.

49. 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.

50. This section reviews the current parliamentary budget process. It concludes with an analysis of the current process, and the impact of the proposed budgeting reforms, in light of best practices in 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 four percent 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 which are nominated by the nine State parliaments, i.e. they are not elected directly by the people. The terms of members of the Federal Council reflects 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.

Parliamentary budget process

51. According to the Austrian constitution, the government’s budget proposal has to be presented to parliament no later than eight weeks prior to the start of the fiscal year. An all-party steering group in parliament organizes 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 another.

52. The government’s budget proposal is an extensive set of documentation totalling over 4,000 pages. This includes 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 chapter (one or more per ministry) in the budget 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. This is further discussed in Execution of Budget Appropriations in the next chapter.

53. Austria operates on the ‘double-law’ principle whereby any expenditure must be authorised in both the budget and in a 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. This is however not considered part of the official budget documentation.
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**First Reading**

54. 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.

55. 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.)

56. 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. He limits his comments to general themes and directs more detailed and program-specific questions to the respective ministers in subsequent phases of the parliamentary budget process.

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

**Committee Stage**

58. About 1-2 weeks later, the Budget Committee commences its examination of the budget.

59. The Budget Committee consists of a main committee and a number of sub-committees. The main committee has 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). The committee has 13 sub-committees which are responsible for examining the budgets of individual ministries. They 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 sub-committee. Importantly, each sub-committee is chaired by the chairman of the main budget committee. Each sub-committee also includes one member from the main committee representative of each political party.

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1 This timetable refers to a “normal” budget year as discussed in the previous chapter.

2 In strictly legal terms, there is one sub-committee whose membership changes 13 times depending on which chapters of the budget are being discussed.
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, he must report on the use of any delegations from parliament, i.e. *virements* between appropriations (see next chapter), and any authorisations from parliament, i.e. entering into long-term commitments. These reports are also a venue for general discussion on the progress with implementing the budget, developments in key programs, and the likely need for any supplementary budgets.

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 lasts 3-4 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, each political party nominates one outside expert (i.e. non-MP) to take 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 program 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.

Executive – Legislature protocol

It is a long established protocol that only ministers respond to questions by 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 in his 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 state secretary who would 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. 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 noted these areas in his budget speech. Importantly, 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 their 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 in response to spending ministries – who “lost” in negotiations with the Ministry of Finance – lobbying
for increased expenditure. It is extremely rare that this practice is successful, but it does happen and is regularly attempted.

65. Third, opposition parties may propose amendments. As their amendments would by definition not be agreed by the majority in the committee, they will announce their amendments in the Budget Committee, but will 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.

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

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**Box 10. Analytical capacity of Parliament**

All analytical capacity in parliament is channelled 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 he may use as he wishes, the political parties get general research funding in proportion to their number of seats in parliament. Each of the political parties has 1-3 staff specialised in budgeting issues.

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**Second Reading**

67. About 1-2 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.

68. The second reading commences with the chairman of the Budget Committee highlighting its conclusions and outlining agreed amendments and their rationale.

69. Following this, the budget chapters of each ministry are examined in turn. About 2-3 hours is generally taken for each ministry. The discussion is launched by a senior member of the relevant budget sub-committee. Again, each minister responds to the questions concerning his ministry. A separate vote is taken for each budget chapter.

70. 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 political party. It should however be emphasised that there is nothing except party discipline to stop an individual member of parliament from putting forward an amendment.

71. The total amount of approved amendments is less than ½ percent 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.

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**Third Reading**

72. 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.

73. As the Federal Council has no role in the budget process, the approved law is sent to the President of the Republic for his signature. The budget is thus in place about one month prior to the start of the year.
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 (1/12 of the budget per month). Following that time period, the provisions of the last budget approved by parliament apply (1/12 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 (1/12 of the budget per month). Moreover, fiscal debts may only be entered up to half the amount of the reference budget.

This effectively precludes any new initiatives being taken up under such conditions.

Conclusion

74. 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 chapter concludes with briefly comparing the Austrian parliamentary budget process with best practices in OECD Member countries.

75. The time allocated to the discussion of the budget is short. The budget is presented 2 months in advance whereas three months is common in OECD Member countries. Moreover, it is also deliberated very quickly in parliament within the short two month time period. This applies especially to the committee stage. This would appear to be a function of the limited influence that parliament has on the budget.

76. 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 and is in line with OECD best practices.

77. The present committee structure for deliberating the budget is in most respects exemplary as it links the discussion of finance (budget committee) and policy (sectoral committees) together seamlessly 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 the proposed budget reforms call for. They could then be in a position to link budget, policy and performance. It is however worth noting that experience shows that the introduction and use of performance and results information by parliaments is difficult in many OECD Member countries.

78. The continued use of the detailed input-based supplements for each budget chapter (discussed further in the next chapter) – despite being not legally binding – is anachronistic to the spirit of the overall budget reform effort. While recognizing that it may be a transitory measure, OECD experience shows that “culture change” is important to the success of reform efforts such as these. 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.
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 considered by a dedicated Public Accounts Committee and are then submitted to parliament as a whole. If those 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. These are however limited to three at any given time.

The Court of Audit has a staff of 330. 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 shareholdings as well as companies owned by states and municipalities with a population of more than 20 000 inhabitants.
CHAPTER 3

BUDGET IMPLEMENTATION AND GOVERNMENT MANAGEMENT ISSUES

79. This chapter consists of six distinct sections briefly describing the organizational structure of government, execution of budget appropriations, human resource management, financial management and reporting, management of real estate and the use of performance and results information. The chapter concludes by highlighting current practices and the impact of the proposed budget reforms in Austria vis-à-vis best practices in OECD Member countries.

Organizational Structure of Government

80. The Austrian government is presently divided into 12 ministries, including the Federal Chancellery (Prime Minister’s Office). This organizational 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.

81. Traditionally, the ministries were large, vertically-integrated, unitary organizations. 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 organizations (agencies).

82. Each directorate is headed by a director-general who typically reports directly to the minister for his 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, there is often a political state secretary in addition to the minister – usually this state secretary would be from the coalition partner of the minister’s party. Each minister will have a large “cabinet” of political advisers (non-civil servants) – typically 15-20 persons.

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

84. 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 chapter. They receive their appropriations as one lump sum – often on a multi-year basis. Their new staff is hired on private sector employment contracts – although existing staff, “inherited” from the old organization, retained 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.

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4 See Annex I for a list of ministries.
These bodies were generally established as private limited liability companies (GmbH) or as specific public entities/agencies (Anstalt öffentlichen Rechts). The private limited liability company form was not only applied for commercial entities but also for core government entities – including, for example, the debt management office. The rational for using this corporate form was entirely pragmatic. They 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 setting out a completely new organisational form for each entity. The private limited liability companies – GmbH – format 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 shareholder and the staff. The size of the boards varies greatly – from 5 to 15 in the cases studied for this review. The shareholder representatives can be civil servants, academics or other outside party. 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.

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

In terms of operational efficiency and effectiveness, the establishment of the entities is generally acknowledged to have been successful – often very successful. There were, however, strong concerns voiced as well. First, the Constitutional Court voiced “skepticism” 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 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 did not change the position of the already established arm’s length entities, it 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.

In terms of managerial flexibility, these are negotiated on a case-by-case basis in a 4-year contract between the agency, the parent ministry and the Ministry of Finance. They 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 enjoy greater opportunity 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 until a wide-spread “cultural change” in the administration occurs where individual flexibility and responsibility is preferred over the classical public sector approach. The concept of flexible entities is planned to be extended as part of the budgeting reforms.

**Execution of Budget Appropriations**

92. The budget is divided into 29 chapters, including six for Organs of State, such as the Presidency and the Parliament. Most ministries have one chapter but there are several examples of ministries having multiple chapters. This applies especially to the Ministry of Finance where public debt, inter-governmental 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 organizational units and specific programs. 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 have just a nominal amount in order to keep the budget line “alive.” There has been an on-going 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.

93. In addition to this, a supplement to the main budget is presented for each chapter that details expenditures at an extreme level of detail with each object of expenditure being 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 how exactly this is adhered to since public information on the implementation of the budget is only presented at the level of the budget as approved by the parliament.

94. Each line item can have up to 8 types of appropriations:

1. Personnel – Mandatory
2. Other operating expenditure – Mandatory
3. Other operating expenditure – Discretionary
4. Investment – Mandatory
5. Investment – Discretionary
6. Subsidies – Mandatory
7. Subsidies – Discretionary
8. Loans – Repayable

95. The appropriations marked as mandatory refer to there being a specific law that mandates the specific amount of expenditure, or a formula or criteria for calculating the amount.

96. Personnel – mandatory(1.) refers to all expenditure in accordance with the posts contained in the Stellenplan, discussed in previous chapters and in a subsequent section of this chapter. More “casual” employment – such as consultants – would be classified as other operating expenditure (3.). The category other operating expenditure – mandatory (2.) is defined broadly to include transfer payments. Examples include unemployment insurance, old-age pensions, fiscal transfers to the States, et cetera. The lump sum payments to arm’s length entities and flexible agencies are classified as other operating expenditure as well (2.). The category investment – mandatory (4.) is largely obsolete. This is where appropriations or capital injections to state-owned enterprises which had special capital expenditure plans approved by parliament were classified. The category investment – discretionary (5.) includes all capital investment over €400 in value. This low threshold therefore captures furniture and office equipment. The category subsidies –

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5 See Annex II for list of budget chapters.
mandatory (6.) includes transfers from the European Union for agricultural support. The remaining two categories (7.) and (8.) are very small. The one marked as loans -- repayable includes conditional (research) financing to companies and similar.

97. Another important difference between appropriations marked mandatory and 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 over €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. This is in recognition of the quality of the budgeting and financial management function in those ministries.

98. The Ministry of Finance has traditionally taken advantage of an authorisation contained in previous budgets to lower appropriations by up to 3 per cent 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.

99. In principle, virement of funds between organizations, programs and type of appropriation is not permitted without the prior approval of parliament. The parliament, however, delegates such authority to the Minister of Finance in the budget documentation in certain cases. This is however not a blanket authority but is 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 14 pages with 17 paragraphs, each setting the conditions for reallocation concerning specific appropriations.

100. Similarly, parliament has delegated authority to carry-forward appropriations in limited instances to the Ministry of Finance 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 at the end of 2006 to €3.7 billion.

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

102. 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.

103. 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.

104. 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.

105. The federal budget contains a central contingency funds (“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 is approximately €400 million in 2006. This amount is not by default spent, but depends on the actual need during the budget year.
Box 11. Monthly meetings between spending ministries and 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 subsequent section in this chapter). In practice, these meetings cover all aspects of the implementation of the budget, including any deviations – both in substantive and financial terms, requests for the Ministry of Finance to exercise any delegated authorities from parliament to amend the budget, and any other relevant issues.

Human Resource Management

106. 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-level positions. In the new decentralised environment, each ministry was responsible for its own personnel actions. The Chancellery is now mainly concerned with overall coordination 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.”

107. 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. It 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 provided there is a vacant post. The Chancellery verifies at the beginning of each month that the number of posts is fulfilled. 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. This is however a too complex, non-routine procedure.

108. There are two types of public employment frameworks 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 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 only special regulations for areas such as police officers, judges, tax investigators and similar positions that exercise the authority of the State.

109. 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 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 an unlimited period of time. Usually every new service contract is agreed for a specified period of time. A probationary service contract can also be concluded which must not exceed one month, and can be suspended anytime by both parties. For civil servants hired on public law basis, an initial probationary period takes 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. Efforts are however being actively made to promote mobility between ministries. Dismissing staff for poor performance is difficult, if not impossible in practical terms. This widely applies to civil servants with contracts based on private law as well.
Box 12. Recruitment of Directors-General

The positions of directors-general are advertised as 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 recommendations of the panel are sent to the respective minister for decision. He may select any of the applicants regardless of the panel’s recommendations – even one classified as not suited. The fact that he did not choose a candidate assessed as well suited is to be explained to the staff association (Zentralausschuss) only on demand.

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 between the numbers of senior civil servants associated with each of the two dominant political parties. This practice has however withered in recent times.

110. 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 ½ month’s salary can be paid as such. The performance pay regime applies especially in the flexible agencies.

111. The public sector is heavily unionised. Despite the unilateral setting of salary scales by parliament in formal terms, intensive and centralised collective 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 unions will hold “information meetings” for their members at critical points in the negotiations where staff would stop working. Such actions have not been punished in Austria.
**Box 13. Downsizing the public sector**

Austria has in recent years emphasized 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 organizational 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 of this was the redeployment of immigration and customs officials to the police force by special law following the abolishment of border controls with the Schengen agreement. This is however an extremely sensitive issue with strong resistance from existing staff and their unions.

**Box 14. 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 harmonized with those of the private sector so there is 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 based on the average of lifetime income, rather than based 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 pension coming from the new system. Employers born before 1955 will not be affected by the 2005 reform and people entering the labor market from 2005 will be subject to only the new system.

The new APG is a pay-as-you-go system.

**Financial Management and Reporting**

112. 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.

113. The cash management system is centralised with all payments and expenditures going through one single account located at the BAWAG/Postal Savings Bank. 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

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6 BAWAG/Postal Savings Bank was partly government-owned but has now been fully privatised.
is no system of interest receipts and payments to government bodies to promote good cash management practices during the year.

114. There is however one significant exception to this. The accumulated carry-forwards of unused appropriations are carried in special accounts in the names of the respective bodies. These significant balances - €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.

115. 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.

116. Requests for payments are sent by individual ministries to the Accounting Agency (see Box 15) for processing. It 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 Accounting Agency then instructs 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 being made to actual payment taking place is rapid – overnight in most cases.

117. 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 on-line information on the government’s revenues and expenditures. Expenditures are shown at the level of each ministry (budget chapter) and compare them with the previous year. They make no comparisons with the current year’s apportionment plan.

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

119. Austria does not have a system of capital charging per se. It has however moved its real estate holdings into a separate corporation which leases them back to the government ministries at prices that they take account of capital costs. This is further described in the next section.
Box 15. 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. The agency is by legislation responsible for three broad tasks:

- Payments and cash-flows: optimising flow of funds for the total federal budget;
- Financial accounting, including checking bookkeeping entries and accounting records, monthly check of actual expenditure vs. 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 passes through the agency every year with a payment volume of 50 billion Euros.

The agency is financed through fees charged on 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.

Management of Real Estate

120. 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 the maintenance of the real estate, selling superfluous property as well as constructing, purchasing and leasing property as required. The value of its total assets exceeds € 3 billion.

121. 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 on the part 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.

Use of Performance and Results Information

122. 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 more. The quality of this information varies greatly, but in general 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.

123. 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.

Conclusion

124. Austria has undertaken significant reforms in the area of budget implementation and government management in recent years. In many respects, the organizational 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 reforms in this area.

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

126. 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 is not yet decided whether savings will be kept in one central fund at each ministry, or at the level (directorates, agency, etc.) where the savings are actually realised. 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 are eligible for carry-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 programs 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 planning a separate treatment of administrative funds and appropriations for transfers and entitlements.

127. The integration of the current standalone 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.

128. 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 rely on the budget only. The desire to maintain additional safeguards is however understandable since these are tenured positions. A reasonable compromise – and 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.

129. 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 OECD Member countries. It is however 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 Member countries which have embarked on these reforms earlier.
130. The introduction of **accrual accounting** – and retaining the budget on cash-basis – is in line with OECD best practices. The coverage of accrual accounting should be comprehensive, including civil service pension obligations. It should however be highlighted that recognizing the civil service pension obligation in the balance sheet does not imply a need to immediately finance that liability; the two are separate and distinct decisions. 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.

131. Austria has recently made substantial efforts to improve in-year **financial reporting** and emerging practice is in line with OECD best practices.

132. 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 Own Finance Minister”** from the budget formulation phase, where it is already in place, to the budget implementation phase.
Annex I

LIST OF MINISTRIES

- The Chancellery
- Ministry of Foreign Affairs
- Ministry of Education, Science & Culture
- Ministry of Finance
- Ministry for Health & Women
- Ministry of the Interior
- Ministry of Justice
- Ministry of National Defence
- Ministry of Agriculture & Forestry, Environment & Water Management
- Ministry of Social Security, Generations & Consumer Protection
- Ministry of Transport, Innovation & Technology
- Ministry of Economics & Labour
Annex II

LIST OF BUDGET CHAPTERS

01 Presidency of 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 sub-national 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